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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Codes: 2331 (HKD counter) and 82331 (RMB counter)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- In the first half of the year, in the context of the overall recovery accompanied by challenges in the domestic market, the Group pursued the direction of stable progress and high-quality development, and recorded the following operating results:
 - Revenue grew steadily, rising by 13.0% to RMB14,019 million
 - Net operating cash inflow increased by 22.7% to RMB1,942 million
 - Gross margin was 48.8%, and net profit margin remained at a healthy level of 15.1% and net profit attributable to equity holders was RMB2,121 million
- Working capital remained at a healthy level:
 - The percentage of gross average working capital to revenue was 7.5%
 - The cash cycle was flat from last year at 30 days
- The Board resolved to declare an interim dividend of RMB36.20 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the six months ended 30 June 2023.

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by low-teens, including online and offline channels.
- Channel inventory decreased by low-single-digit comparing to end of last year. The inventory turnover and ageing structure remained at a healthy level.
- Offline channel new product sell-through increased by high-single-digit:
 - Sell-through mix of new products at 87%
 - Sell-out rate: 6-month at a flat level, 3-month declined by 2 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 2023, together with comparative figures of 2022, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited 30 June 2023 RMB’000	Audited 31 December 2022 RMB’000
ASSETS			
Non-current assets			
Property, plant and equipment		3,499,151	3,234,563
Right-of-use assets		2,449,070	2,022,229
Investment properties		1,991,010	1,802,227
Land use rights		156,882	158,781
Intangible assets		223,633	217,236
Deferred income tax assets		737,824	693,402
Other assets		2,142	287,707
Investments accounted for using the equity method		1,469,255	1,369,403
Investments measured at fair value through profit or loss		–	174,597
Other receivables		247,064	268,183
Long-term bank deposits		<u>10,275,722</u>	<u>11,023,296</u>
Total non-current assets		<u>21,051,753</u>	<u>21,251,624</u>
Current assets			
Inventories	4	2,119,552	2,428,040
Other assets – current portion		789,678	831,578
Trade receivables	5	1,200,008	1,020,346
Other receivables – current portion		172,179	88,419
Restricted bank deposits		1,011	970
Short-term bank deposits		2,537,891	643,324
Cash and cash equivalents		<u>6,410,689</u>	<u>7,382,218</u>
Total current assets		<u>13,231,008</u>	<u>12,394,895</u>
Total assets		<u>34,282,761</u>	<u>33,646,519</u>

	<i>Note</i>	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		240,510	240,320
Share premium		10,422,650	11,580,718
Shares held for Restricted Share Award Scheme		(146,541)	(180,839)
Other reserves		1,830,628	1,792,412
Retained earnings		<u>13,018,050</u>	<u>10,896,819</u>
		25,365,297	24,329,430
Non-controlling interests in equity		<u>–</u>	<u>2,498</u>
Total equity		<u>25,365,297</u>	<u>24,331,928</u>
LIABILITIES			
Non-current liabilities			
License fees payable		12,151	15,531
Lease liabilities		1,894,870	1,473,905
Deferred income tax liabilities		491,652	518,731
Deferred income		<u>76,009</u>	<u>65,591</u>
Total non-current liabilities		<u>2,474,682</u>	<u>2,073,758</u>
Current liabilities			
Trade payables	6	1,542,955	1,584,424
Contract liabilities		236,888	252,090
Lease liabilities – current portion		689,501	667,762
Other payables and accruals		3,227,783	3,648,720
License fees payable – current portion		99,726	50,540
Current income tax liabilities		<u>645,929</u>	<u>1,037,297</u>
Total current liabilities		<u>6,442,782</u>	<u>7,240,833</u>
Total liabilities		<u>8,917,464</u>	<u>9,314,591</u>
Total equity and liabilities		<u>34,282,761</u>	<u>33,646,519</u>

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	14,018,947	12,408,665
Cost of sales	7	<u>(7,180,183)</u>	<u>(6,207,890)</u>
Gross profit		6,838,764	6,200,775
Selling and distribution expenses	7	(3,948,420)	(3,382,990)
Administrative expenses	7	(590,757)	(518,104)
Reversal of expected credit loss allowance for financial assets – net		10,806	7,341
Other income and other gains – net	8	<u>164,831</u>	<u>336,602</u>
Operating profit		2,475,224	2,643,624
Finance income	9	305,070	228,608
Finance expenses	9	<u>(81,366)</u>	<u>(54,877)</u>
Finance income – net	9	223,704	173,731
Share of profit of investments accounted for using the equity method		<u>101,873</u>	<u>101,646</u>
Profit before income tax		2,800,801	2,919,001
Income tax expense	10	<u>(679,518)</u>	<u>(729,693)</u>
Profit for the period		2,121,283	2,189,308
Profit is attributable to:			
Equity holders of the Company		2,121,231	2,189,308
Non-controlling interests		<u>52</u>	<u>–</u>
		<u>2,121,283</u>	<u>2,189,308</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>80.63</u>	<u>83.77</u>
Diluted earnings per share	11	<u>80.34</u>	<u>83.00</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	2,121,283	2,189,308
Other comprehensive income / (loss):		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>3,281</u>	<u>(2,870)</u>
Total comprehensive income for the period	<u>2,124,564</u>	<u>2,186,438</u>
Attributable to:		
Equity holders of the Company	2,124,512	2,186,438
Non-controlling interests	<u>52</u>	<u>–</u>
Total comprehensive income for the period	<u>2,124,564</u>	<u>2,186,438</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.

These condensed consolidated interim results are presented in Renminbi (“RMB”), unless otherwise stated. These condensed consolidated interim results have been approved for issue by the Board on 10 August 2023.

These condensed consolidated interim results have not been audited.

2. Accounting policies

The accounting policies applied to the preparation of these condensed consolidated interim results are consistent with those applied in the annual financial statements for the year ended 31 December 2022, 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 have become 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 2023 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	
	2023	2022
	RMB’000	RMB’000
Footwear	7,514,672	6,758,808
Apparel	5,639,911	4,906,647
Equipment and accessories	864,364	743,210
Total	14,018,947	12,408,665

Revenue breakdown by sales channel:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
The PRC market:		
Sales to franchised distributors	6,724,040	5,901,205
Sales from direct operation	3,409,502	2,786,983
Sales from e-commerce channel	3,595,353	3,534,298
Other regions	290,052	186,179
Total	14,018,947	12,408,665

Revenue by geographical location above 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 2023 and 2022, 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 2023	31 December 2022
	RMB'000	RMB'000
Raw materials	36,814	19,302
Work in progress	22,213	31,783
Finished goods	2,203,913	2,497,486
	2,262,940	2,548,571
Less: provision for write-down of inventories to net realisable value	(143,388)	(120,531)
	2,119,552	2,428,040

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB7,002,447,000 for the six months ended 30 June 2023 (30 June 2022: RMB6,059,912,000), which included inventory provision of RMB22,857,000 (30 June 2022: RMB12,986,000).

5. Trade receivables

	Unaudited	Audited
	30 June 2023	31 December 2022
	RMB'000	RMB'000
Accounts receivable	1,342,436	1,172,857
Less: expected credit loss allowance for trade receivables	(142,428)	(152,511)
	1,200,008	1,020,346

Customers are normally granted credit terms within 90 days. As at 30 June 2023 and 31 December 2022, ageing analysis of trade receivables based on invoice date is as follows:

	Unaudited 30 June 2023 <i>RMB'000</i>	Audited 31 December 2022 <i>RMB'000</i>
0 – 30 days	850,206	579,558
31 – 60 days	186,597	305,891
61 – 90 days	95,363	99,031
91 – 180 days	96,543	74,865
Over 180 days	113,727	113,512
	<u>1,342,436</u>	<u>1,172,857</u>

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

	Unaudited Six months ended 30 June 2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
As at 1 January	152,511	208,281
Reversal of expected credit loss allowance for trade receivables	(7,891)	(5,342)
Trade receivables written off during the period as uncollectible	(2,872)	(14,287)
Effect of change in exchange rate	680	488
	<u>142,428</u>	<u>189,140</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 2023 <i>RMB'000</i>	Audited 31 December 2022 <i>RMB'000</i>
0 – 30 days	1,406,977	1,224,526
31 – 60 days	124,200	309,672
61 – 90 days	4,952	1,758
91 – 180 days	3,256	9,699
181 – 365 days	2,623	15,622
Over 365 days	947	23,147
	<u>1,542,955</u>	<u>1,584,424</u>

7. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Cost of inventories recognised as expenses and included in cost of sales	7,002,447	6,059,912
Depreciation on property, plant and equipment (<i>Note a</i>)	427,779	344,493
Amortisation of land use rights and intangible assets	26,958	23,911
Depreciation on right-of-use assets	363,257	278,060
Advertising and marketing expenses	1,042,091	980,851
Commission and trade fair related expenses	386,394	383,480
Staff costs, including directors' emoluments (<i>Note a</i>)	1,160,851	910,632
Short-term lease rentals and variable lease payments not included in lease liabilities, and rental related expenses	584,424	413,166
Research and product development expenses (<i>Note a</i>)	290,764	239,096
Transportation and logistics expenses	391,806	435,269
Auditor's remuneration		
– Audit services	3,200	3,110
– Non-audit services	1,207	771
Management consulting expenses	47,099	42,090

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	
	2023	2022
	RMB'000	RMB'000
Government grants (<i>Note</i>)	110,094	160,748
Fair value gains on wealth management products measured at fair value through profit or loss	38,063	77,271
License fees income	26,009	68,404
Rental income	22,185	36,489
Depreciation and related expenses on investment properties under operating leases	(36,427)	(29,639)
Fair value gains on investments measured at fair value through profit or loss	4,907	23,329
	<u>164,831</u>	<u>336,602</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 2023, the entitlement of an aggregate amount of RMB97,662,000 (30 June 2022: RMB148,316,000) was unconditional and at the discretion of the relevant authorities, while the remaining amount of RMB12,432,000 (30 June 2022: 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 and expenses

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Finance income		
Interest income on bank balances and deposits	240,317	149,104
Net foreign currency exchange gain	<u>64,753</u>	<u>79,504</u>
	<u>305,070</u>	<u>228,608</u>
Finance expenses		
Amortisation of discount – lease liabilities	(67,319)	(44,117)
Borrowing interests	(3,993)	(1,539)
Amortisation of discount – license fees payable	(997)	(1,182)
Others	<u>(9,057)</u>	<u>(8,039)</u>
	<u>(81,366)</u>	<u>(54,877)</u>
Finance income – net	<u><u>223,704</u></u>	<u><u>173,731</u></u>

10. Income tax expense

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current income tax		
– Corporate income tax (<i>Note b</i>)	<u>751,019</u>	<u>843,724</u>
Deferred income tax	<u>(71,501)</u>	<u>(114,031)</u>
Income tax expense	<u><u>679,518</u></u>	<u><u>729,693</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 2023, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (30 June 2022: 25%) on the assessable income of each of the group companies, except for one of the Group's subsidiaries incorporated in Guangxi Zhuang Autonomous Region which is subject to preferential tax rate of 9% (30 June 2022: 9%). Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (30 June 2022: 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 the restricted share award scheme adopted by the Company on 14 July 2016 (the “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 248,000 ordinary shares (30 June 2022: 250,000 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 2022.

	Unaudited	
	Six months ended 30 June	
	2023	2022
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>2,121,231</u>	<u>2,189,308</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>2,630,863</u>	<u>2,613,474</u>
Basic earnings per share (<i>RMB cents</i>)	<u>80.63</u>	<u>83.77</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 share options.

	Unaudited	
	Six months ended 30 June	
	2023	2022
Profit attributable to equity holders of the Company, used to determine diluted earnings per share (<i>RMB'000</i>)	<u>2,121,231</u>	<u>2,189,308</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>)	2,630,863	2,613,474
Adjustment for the restricted shares (<i>in thousands</i>)	6,252	4,622
Adjustment for the share option schemes (<i>in thousands</i>)	<u>3,251</u>	<u>19,566</u>
Deemed weighted average number of shares for diluted earnings per share (<i>in thousands</i>)	<u>2,640,366</u>	<u>2,637,662</u>
Diluted earnings per share (<i>RMB cents</i>)	<u>80.34</u>	<u>83.00</u>

12. Dividends

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Final dividend paid of RMB46.27 cents (2022: RMB45.97 cents) per share	1,220,193	1,194,720
Interim dividend of RMB36.20 cents (30 June 2022: nil) per share	954,554	–

On 14 June 2023, the shareholders of the Company approved to declare a final dividend of RMB46.27 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2022. The final dividend was paid in June 2023.

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.

Pursuant to a resolution of the Board passed on 10 August 2023, the Board resolved to declare an interim dividend of RMB36.20 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the six months ended 30 June 2023 (30 June 2022: nil). The aggregate amount of the interim dividend of RMB954,554,000 was not recognised as a liability as at 30 June 2023, which is expected to be paid in the second half of 2023 out of the Company's retained earnings as at 30 June 2023.

DIVIDENDS

The Board resolved to declare an interim dividend of RMB36.20 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the six months ended 30 June 2023 (30 June 2022: nil). Such interim dividend is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 10 August 2023 and will not be subject to any withholding tax. Such interim dividend will be paid:

- (i) on 6 September 2023 to ordinary shareholders whose names shall appear on the register of members of the Company on 29 August 2023;
- (ii) on 6 September 2023 to holders of convertible securities issued under the open offer of offer securities of the Company as set out in the listing documents of the Company dated 9 January 2015 and remain outstanding on 29 August 2023; and
- (iii) on 11 September 2023 (i.e. the third business day after 6 September 2023) to holders of convertible securities issued under the open offers of convertible securities of the Company as set out in the listing documents of the Company dated 27 March 2013 and remain outstanding on 29 August 2023.

For the avoidance of doubt, any convertible securities of the Company subject to a conversion notice completed, executed and deposited on or before the interim dividend record date (being 29 August 2023) shall be entitled to the distribution of such interim dividend of the Company. For details of calculation of distribution of the interim dividend entitled to the convertible securities please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The final dividend of RMB46.27 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2022 was declared payable and approved by the shareholders at the annual general meeting of the Company on 14 June 2023 and subsequently paid in June 2023.

CLOSURE OF REGISTER OF MEMBERS AND HOLDERS OF CONVERTIBLE SECURITIES

For determining shareholders and convertible securities holders of the Company who are ascertaining entitlement to the interim dividend, the register of members and register of holders of convertible securities of the Company will be closed as set out below:

Latest time to lodge transfers documents	4:30 p.m. on 24 August 2023 (Thursday)
Period of closure of register of members and register of holders of convertible securities	25 August 2023 (Friday) to 29 August 2023 (Tuesday) (both days inclusive)
Interim dividend record date	29 August 2023 (Tuesday)

In order to qualify for the interim dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 24 August 2023. During the above closure periods, no transfer of shares or convertible securities of the Company will be registered.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2023 are set out below:

	Unaudited Six months ended 30 June 2023	2022	Change (%)
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	14,018,947	12,408,665	13.0
Gross profit	6,838,764	6,200,775	10.3
Operating profit	2,475,224	2,643,624	(6.4)
Earnings before interest, tax, depreciation and amortisation (EBITDA) <i>(Note 1)</i>	3,425,450	3,421,373	0.1
Profit attributable to equity holders	2,121,231	2,189,308	(3.1)
Basic earnings per share <i>(RMB cents) (Note 2)</i>	80.63	83.77	(3.7)
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	48.8	50.0	
Operating profit margin (%)	17.7	21.3	
Effective tax rate (%)	24.3	25.0	
Margin of profit attributable to equity holders (%)	15.1	17.6	
Return on equity attributable to equity holders (%) <i>(Note 3)</i>	8.5	10.1	
Expenses to revenue ratios			
Staff costs (%)	8.3	7.3	
Advertising and marketing expenses (%)	7.4	7.9	
Research and product development expenses (%)	2.1	1.9	
Asset efficiency			
Average inventory turnover <i>(days) (Note 4)</i>	57	55	
Average trade receivables turnover <i>(days) (Note 5)</i>	14	14	
Average trade payables turnover <i>(days) (Note 6)</i>	41	48	
	30 June 2023	31 December 2022	
Debt-to-equity ratio (%) <i>(Note 7)</i>	35.2	38.3	
Net asset value per share <i>(RMB cents) (Note 8)</i>	964.29	926.23	

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. 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.
3. 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.
4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period, divided by cost of sales and multiplied by the total number of days in the period.
5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period, divided by revenue and multiplied by the total number of days in the period.
6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period, divided by total purchases and multiplied by the total number of days in the period.
7. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the period/year.
8. 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 2023 amounted to RMB14,018,947,000, representing an increase of 13.0% as compared to the corresponding period of 2022. At the beginning of 2023, the PRC announced a major and decisive victory in epidemic prevention and control, and domestic economic and social activities quickly resumed normal. The successive resumption of diverse sports events fueled the participation in sports and willingness to consumption of the public. Meanwhile, the Group remained focused on product technology upgrades and developed a professional functional product matrix that combines sportsmanship + ethnic culture with a view to creating the ultimate consumer experience. Revenue from all channels recorded steady growth during the period: (1) as the pandemic prevention and control measures were lifted completely, consumers were allowed to engage in more outdoor activities, which led to an increase in the demand of sports and fitness consumption. Meanwhile, consumers tended to prefer offline stores as their purchase channel, and thus the revenue from offline retail stores recorded a period-on-period growth rate of 22.3%; (2) in addition to the impact of temporary changes in consumers' choice of consumption channels after the pandemic, the e-commerce channel maintained steady and efficient promotion and advertisement placement, thereby maintaining stable revenue with a slight period-on-period increase of 1.7%; and (3) franchised distributors remained confident about the future market after the pandemic situation has been stabilized, which led to an increase in orders from franchised distributors and a growth in revenue by 13.9% period-on-period.

Revenue breakdown by product category

	Six months ended 30 June				Revenue Change (%)
	2023	% of total revenue	2022	% of total revenue	
	RMB'000		RMB'000		
Footwear	7,514,672	53.6	6,758,808	54.5	11.2
Apparel	5,639,911	40.2	4,906,647	39.5	14.9
Equipment and accessories	864,364	6.2	743,210	6.0	16.3
Total	14,018,947	100.0	12,408,665	100.0	13.0

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		Change (%)
	2023	2022	
	% of revenue	% of revenue	
The PRC market:			
Sales to franchised distributors	48.0	47.5	0.5
Sales from direct operation	24.3	22.5	1.8
Sales from e-commerce channel	25.6	28.5	(2.9)
Other regions	2.1	1.5	0.6
Total	100.0	100.0	-

Revenue breakdown by geographical location

	Note	Six months ended 30 June				Revenue Change (%)
		2023	% of revenue	2022	% of revenue	
		RMB'000		RMB'000		
The PRC market:						
Northern region	1	6,655,059	47.4	5,788,648	46.7	15.0
Southern region	2	7,073,836	50.5	6,433,838	51.8	9.9
Other regions		290,052	2.1	186,179	1.5	55.8
Total		14,018,947	100.0	12,408,665	100.0	13.0

Notes:

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

Cost of Sales and Gross Profit

For the six months ended 30 June 2023, the overall cost of sales of the Group amounted to RMB7,180,183,000 (2022: RMB6,207,890,000), and the overall gross profit margin was 48.8% (2022: 50.0%). During the period, the gross profit margin decreased by 1.2 percentage points as compared to the corresponding period last year, which was mainly attributable to the increase of the Group's discount at online channel and retail stores to promote consumption; at the same time, the proportion of revenue from direct-to-consumer channels with higher gross profit margin decreased slightly period-on-period, and the provision for inventories increased as compared with the same period last year. All the aforesaid factors had an adverse impact on the gross profit margin for the period.

Selling and Distribution Expenses

For the six months ended 30 June 2023, the Group's overall selling and distribution expenses amounted to RMB3,948,420,000 (2022: RMB3,382,990,000), accounting for 28.2% (2022: 27.3%) of the Group's total revenue.

The selling and distribution expenses increased by 16.7% as compared to the corresponding period last year, and its percentage to revenue grew by 0.9 percentage points as compared to the corresponding period last year. Along with the increase in revenue, rental, wages and bonuses of direct sales staff that related to revenue recorded increases to varying degrees. The advertising and marketing expenses, and depreciation on leasehold improvement also increased.

Administrative Expenses

For the six months ended 30 June 2023, the Group's overall administrative expenses amounted to RMB590,757,000 (2022: RMB518,104,000), accounting for 4.2% (2022: 4.2%) of the Group's total revenue and remained flat on a period-on-period basis. 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 was mainly attributable to the growth of wages and salaries, taxes, as well as research and product development expenses.

Share of Profit of Investments Accounted for Using the Equity Method

For the six months ended 30 June 2023, the Group's share of profit of investments accounted for using the equity method amounted to RMB101,873,000 (2022: RMB101,646,000).

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

For the six months ended 30 June 2023, the Group's EBITDA amounted to RMB3,425,450,000 (2022: RMB3,421,373,000), representing a period-on-period increase of 0.1%.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Reconciliation of profit for the period to EBITDA:		
Profit for the period	2,121,283	2,189,308
Income tax expense	679,518	729,693
Finance income	(305,070)	(228,608)
Finance expenses (including amortisation of discount on lease liabilities)	81,366	54,877
Depreciation on property, plant and equipment	427,779	344,493
Amortisation of land use rights and intangible assets	26,958	23,911
Depreciation on right-of-use assets	363,257	278,060
Depreciation on investment properties under operating leases	30,359	29,639
	<u>3,425,450</u>	<u>3,421,373</u>
EBITDA	<u>3,425,450</u>	<u>3,421,373</u>

Finance Income – Net

For the six months ended 30 June 2023, the Group's net finance income amounted to RMB223,704,000 (2022: RMB173,731,000). The increase in net finance income was due to the increase in the average disposable capital of the Group for the period as compared to the corresponding period last year, as well as the adjustment of the Group's currency investment portfolio where more funds were deposited in the form of fixed term deposits for more stable returns and led to the period-on-period growth of interest income.

Income Tax Expense

For the six months ended 30 June 2023, the income tax expense of the Group amounted to RMB679,518,000 (2022: RMB729,693,000) and the effective tax rate was 24.3% (2022: 25.0%). Currently, the Group's income tax expense is almost in line with the standard level.

Overall Profitability Indicators

In the first half of the year, in the context of the overall recovery accompanied by challenges in the domestic market, the Group pursued the direction of stable progress and high-quality development. The revenue grew period over period, but the expense ratio increased slightly and other gains, such as government grants, declined. During the period, the Group's profit attributable to equity holders amounted to RMB2,121,231,000 (2022: RMB2,189,308,000). The margin of profit attributable to equity holders was 15.1% (2022: 17.6%). Return on equity attributable to equity holders was 8.5% (2022: 10.1%).

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2023 was the same as that in 2022. 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 2023, the accumulated provision for inventories was RMB143,388,000 (31 December 2022: RMB120,531,000). During the period, the original value of inventory aged over 1 year 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 2023 was the same as that in 2022. 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 2023, the accumulated expected credit loss allowance was RMB146,535,000 (31 December 2022: RMB159,200,000), among which the accumulated expected credit loss allowance for trade receivables was RMB142,428,000 (31 December 2022: RMB152,511,000) and the accumulated expected credit loss allowance for other receivables was RMB4,107,000 (31 December 2022: RMB6,689,000). The trade receivables and other receivables of the Group written off during the six months ended 30 June 2023 as uncollectible and the effect of change in exchange rate amounted to RMB1,859,000 (2022: RMB9,484,000). The Group will continue to monitor the ageing structure and settlements to maintain a sound receivable turnover ratio.

Liquidity and Financial Resource

The Group's net cash generated from operating activities for the six months ended 30 June 2023 amounted to RMB1,942,431,000 (2022: RMB1,583,232,000). As at 30 June 2023, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB6,410,689,000, representing a net decrease of RMB971,529,000, as compared with the position as at 31 December 2022. Adding back the amount recorded as fixed-term deposits held at banks, cash balance amounted to RMB19,224,302,000, which represented a net increase of RMB175,464,000 as compared to 31 December 2022. The increase was due to the following items:

	Unaudited Six months ended 30 June 2023 RMB'000
Item	
Operating activities:	
Net cash generated from operating activities	1,942,431
Investing activities:	
Net cash used in investing activities (including placement and redemption of short-term and long-term bank deposits)	(1,355,891)
Financing activities:	
Net cash used in financing activities	(1,637,835)
Add: Exchange gains on cash and cash equivalents	<u>79,766</u>
Net decrease in cash and cash equivalents	(971,529)
Add: Net increase in short-term and long-term bank deposits	<u>1,146,993</u>
Net increase in cash balance	<u><u>175,464</u></u>

During the period, revenue increased period-on-period while the efficiency of settlement remained stable, which, in conjunction with the reasonable purchase and payment plan, contributed to the period-on-period increase in net cash generated from operating activities. The Company 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 (subsequently renamed as Viva Goods Company 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 the top-up placing and the subscription. 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 details.

For the six months ended 30 June 2023, RMB1,067,086,000 of the net proceeds from the top-up placing had been used. As at 30 June 2023, RMB5,356,493,000 of the net proceeds from the top-up placing were unutilised and 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 2022 (approximately RMB'000)	Amount used during the six months ended 30 June 2023 (approximately RMB'000)	Unutilised net proceeds as at 30 June 2023 (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%	2,630,853	466,527	2,164,326	Before 31 December 2026
Investment in reengineered infrastructure and further improvement of the supply chain system	30%	2,137,381	208,272	1,929,109	Before 31 December 2026
Development of the brand and IT system	20%	994,411	256,803	737,608	Before 31 December 2024
General working capital	10%	660,934	135,484	525,450	Before 31 December 2024
Total	100%	6,423,579	1,067,086	5,356,493	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 2023, the Group's banking facilities amounted to RMB5,635,100,000, 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, Hong Kong and Macau use South Korean Won, Hong Kong Dollars and Macau Pataca, respectively, as their functional currencies. The Group has a partial amount of cash and bank deposits denominated in Hong Kong Dollars, United States Dollars, Euros, South Korean Won and Pound Sterling. 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 2023 and 31 December 2022, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2023, the Group had no significant contingent liabilities.

BUSINESS REVIEW

At the beginning of 2023, the PRC declared that it had secured a major decisive victory in the prevention and control of the COVID-19 pandemic with gradual recovery of economic and social activities in Mainland China. The general public has returned to their normal living and consumption patterns gradually, while offline retail stores, food and beverages consumption, production and supply chain, transportation and other industries, which were disrupted by the pandemic, have shown a trend of moderate recovery. Meanwhile, in order to fuel sustainable economic growth, the Chinese government continued to stimulate the growth of domestic demand by implementing various measures, including facilitating consumption upgrade, expanding the middle-income group and driving development of rural areas. Although it takes time for the consumption to be fully recovered, the consumer industry began to gradually pick up in the first half of 2023.

The sports industry in the PRC has been witnessing rapid development. The Chinese government listed sports development as an essential component of the national development strategies and adopted a series of policies and measures to boost the growth of the sports industry and propagate national fitness, thereby significantly increasing the public awareness of health. Furthermore, hosting a series of major international and national sports events, such as the Beijing Winter Olympics in 2022 and the forthcoming Hangzhou Asian Games in the second half of 2023, not only drove the development and commercialization of the sports industry in China, but also further underpinned China's leading presence in the global sports scene. In addition, the application and popularity of digitalization, the internet and artificial intelligence also drove the innovative development of the sports industry.

During the period, while focusing on professional sports, brand reputation and product innovation, the Group continued to pursue the core strategy of “Single Brand, Multi-categories, Diversified Channels”. It enhanced the operating efficiency of retail channels and improved the stability and flexibility of the supply chain to maximize LI-NING's experience value. In the first half of 2023, with a robust growth in revenue, the fundamentals of the Group remained solid and resilient. The Group remained optimistic about the market outlook for sports products consumption.

In terms of products, with a focus on the core categories, the Group pursued synchronous improvement in the quality, functional features and fashionable style of products by continuously ramping up investment in research and development and expanding talent selection channels, in a bid to garner recognition among young consumers with professional features and outstanding design capabilities. For marketing, the Group has been committed to investments in professional resources, while placing emphasis on upgrading its brand image with transformation geared to attracting more young consumers. By means of product crossovers and collaboration with the entertainment sector, the Group appealed to young consumers and strengthened its professional and youthful brand image. In respect of operation, the Group made active efforts in upgrading the retail channel and accelerating channel efficiency, at the same time promoting the integration of online and offline channels to realize the transformation towards a new retail model. It also persisted in improving the structure of the supply chain and the logistics system, and adopted proactive inventory management based on consumers' demand with rapid response capability.

In addition, The Stock Exchange of Hong Kong Limited launched the HKD-RMB Dual Counter Model on 19 June 2023. The securities of the Company became one of the first securities that can be traded in the dual counters model, offering both HKD (Stock Code: 2331) and RMB (Stock Code: 82331) counters. The Group believes that the launch of dual counter model will provide more investment flexibility and stock liquidity for the shareholders and potential investors.

Latest operational update for the second quarter of 2023

For the second quarter ended 30 June 2023, the retail sell-through of LI-NING point of sale (“POS”) (excluding LI-NING YOUNG) for the overall platform registered a low-teens increase on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-teens increase, with retail channel increased by low-twenties and wholesale channel increased by high-single-digit, while the e-commerce virtual stores business registered a low-single-digit increase.

As at 30 June 2023, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,167, representing a net decrease of 39 POS since the end of previous quarter and a net decrease of 128 POS since the beginning of this year. Among the net decrease of 128 POS, direct retail accounts for a net decrease of 7 POS, and wholesale accounts for a net decrease of 121 POS.

As at 30 June 2023, the total number of LI-NING YOUNG POS in China amounted to 1,281, representing a net increase of 28 POS since the end of previous quarter and a net decrease of 27 POS since the beginning of this year.

For the second quarter ended 30 June 2023, in respect of LI-NING 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-single-digit decline on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a mid-single-digit increase and wholesale (franchised distributors) channel registered a low-single-digit decline, while the e-commerce virtual stores business registered a low-teens decline on a year-on-year basis.

Push Forward the Strategy of “Single Brand, Multi-categories, Diversified Channels” to Upgrade LI-NING’s Experience Value Continuously

Continue to expand the professional product matrix and build a technology-driven image for the brand

During the period, we stayed focused on our five core categories, namely basketball, running, fitness, badminton and sports casual. Focusing on innovative sports technology, we developed a comprehensive layout of functional products and demonstrated the sports DNA of the brand. We complemented our core brand proposition with Chinese and sports fashion culture to create a new image of professional and chic sports products.

In terms of professional products, we remained focused on product technology upgrades to seek breakthroughs. We further refined the professional product matrix and highlighted the professional attributes of sports products under the LI-NING brand, with a view to tapping into the growing consumer demand for sports products.

- In respect of the running category, with a professional running shoes matrix featuring the “Super Light” (超輕), “Rouge Rabbit” (赤兔) and “Feidian” (飛電) series LI-NING became the first domestic brand to develop a well-established professional product matrix, which drove the growth in running business. The running shoes under the three series applied the “LI-NING BOOM” (李寧響), a high-performance midsole technology, on the entire foot area. During the first half of the year, the total sales volume of “Feidian 3 CHALLENGER” (飛電3 CHALLENGER) exceeded 0.7 million pairs of shoes, which became a phenomenal IP among the carbon plate running shoes. Launched as all-powerful racing shoes designed for racing training, the “Rouge Rabbit 6 PRO” (赤兔6 PRO) generated a total sales of more than 1.30 million pairs of shoes. The “Super Light 20th” (超輕20), an IP with the longest history among domestic brands, remained as beginning runners’ first choice and sold over 1.40 million pairs in total. Meanwhile, the brand new “Shadow 2” (絕影2代) and “Yueying 3” (越影3代) products under the anti-shock protection

series targeting beginning runners will be launched in the second half of 2023. Taking a scenario-focused approach for running apparels, we satisfied the needs of runners by adopting different materials, blocks and functional technology based on their needs in two different scenarios, i.e. marathon race and daily running. As such, we built up the professional reputation of LI-NING's running apparels by improving product experience.

- Despite keen competition in the industry, we steadily developed our basketball products by leveraging the technology platforms to upgrade the professional features and integrating brand resources with products to create storyline-based professional products. With an enhanced focus on mobility for basketball games, the newly launched “Sonic 11” (音速11) was fully optimized with an upgraded midsole configuration from “LI-NING BOOM” (李寧轟) with half-foot support to “LI-NING BOOM” (李寧轟) with both forefoot and rearfoot support. In addition, color options such as “Ocean Blue” (凌波) and “Galaxy” (星辰) were well-received by the market. The signature shoes of NBA star, Jimmy Butler 1, was one of the most premium featured products in LI-NING's basketball shoes matrix, which was designed specifically for professional indoor courts and incorporated various technologies, including the “BOOM FIBER” (轟絲), “LI-NING BOOM” (李寧轟), carbon plate and Honeycomb Cellular LOC. The “All City 11” (全城11) series was launched with a themed story packs revolving around the classic “Dawn” color of the WADE series. This product also adopted the “LI-NING BOOM” (李寧轟) technology with full-foot support and lightweight and high resilience features as well as TPU materials, which were complimented with the use of strong mesh fabric on the shoe face to further boost its game performance.
- As to our badminton products, the launch of “Thunderstorm 100” (雷霆100) further enriched our product mix of badminton rackets. The current wide variety of products under the “Thunderstorm” (雷霆) series, “Shadow” (鋒影) series and “Halberd” (戰戟) series significantly increased the market competitiveness of LI-NING's rackets. Having made a breakthrough in shaft technology, “Thunderstorm 100” (雷霆100) outperformed other mainstream products at the time and broke the current industry record of the slimmest shaft at 6.0 mm, which further demonstrated the technological capability and reserve of LI-NING's rackets. The badminton jersey series of LI-NING is always popular and the centre of attention among the national team, international top-notch sports stars and consumers. During the period, we released the jersey for the national team and international sports stars. Employing the quick-dry technology “AT DRY” and the SEAMLESS technique, we offered supreme professional products with professional and fashionable features for competition to world-class sports teams and stars. In terms of footwear, the “HERO 2” (貼地飛行2) series enabled LI-NING to promote the features of its badminton shoes products to professional consumers. The distinctive design and color options that set it apart from existing products on the market allowed LI-NING to highlight the unique brand attributes of its badminton shoes products in the market.
- The fitness category continued to be oriented with functions and technologies and aimed to develop quality functional fitness equipment for all fitness enthusiasts with improving the sports performance and maintaining the best physical condition of the sports population as the starting point. During the period, building on the functions and technologies of “AIRSHELL Air Movement Technology” (AIRSHELL氣動科技), we fulfilled the clothing needs of different customer groups on different occasions by leveraging the core products of sports outfits with various functions. The newly launched “COOL SHELL Cooling Technology” (COOL SHELL涼爽科技) adopted the exclusive 3D cross yarns technique, which improved the quick-dry performance tremendously and reached the industry-leading level with significantly better functions than the national standards. Furthermore, we established the women's product matrix for professional sports and all scenarios. With a focus on close-fitting wear, we offered women training products with the use of functional materials and sports-oriented block design customized for women under the “COOL SHELL” and “DYNAMIC SHELL” technology platforms. As for women yoga apparel, we launched the “SoftTouch” (柔感) series during the period, which integrated diversified technology themes such as Mellow SoftTouch (綿綿柔感) and Silky SoftTouch (絲絲柔感) to satisfy the seasonal demands for materials and enhance our communication with female consumers at the same time.

In respect of the sport casual category, leveraging the sports DNA inherited by our brand, we integrated traditional Chinese culture and sportswear fashion trends to enrich the cultural value of the brand and drive business growth. The trendy sports product matrix was developed to cater to the needs of diversified consumers and to maintain our interaction with consumers from the fashionable sports community on a continuous basis.

- The WADE series remained focus on professionalism and sports stars culture and continued to reinforce the positioning of “Professional Technology, High Street Basketball, Delicate Fashion” of products under the WADE series with an aim to create the international brand image featuring youth and basketball culture. Through the collaboration with artists and continuous exposure with NBA and CBA sports stars, arts and sports stars culture were integrated into our brand story to highlight the technology and craftsmanship used and the artistic interpretation of our apparel products, thereby bringing the experience of professionalism and basketball culture shock in the post-Wade era to our consumers. To celebrate Wade’s induction into the Hall of Fame, the WADE series will introduce the Way of Wade retro series in the future in order to communicate with young consumers and the Sneaker community through the replication and re-interpretation of the series’ classic products.
- The “BADFIVE” street basketball series continued to build its presence under street basketball scenarios from an oriental perspective. Through the equipment from on-court street basketball product matrix that lined up professional functions and technology, and street chic products with strong cultural attributes and storylines to be used at courtside or off-court, we have built up a strong linkage with the young street basketball communities to better resonate with them. Meanwhile, on the basis of consolidating its own street chic style, “BADFIVE” continued to optimize its professional functions and created overall matching outfit combinations with shoes and apparel for different occasions from on-court to off-court scenarios during basketball games based on the themed story packs, which attained high popularity among young consumers.
- For sports casual series, we continued to explore the deep connection between the Chinese culture and our target customer groups, and maintained our competitiveness in the industry through the development of story IP with unique cultural connotation and original designs. Infused with interesting and innovative designs, the “Rich Everyday” (日進斗金) series creatively combined the Chinese zodiac signs with auspicious elements such as the three gods of fortune, prosperity and longevity, as well as gold sycees from the traditional Chinese culture during the Chinese New Year to convey the best wishes for good fortune and unlock brand-new outfit ideas. Furthermore, the “Chinese Colors” (中國色) series injected vitality and comfort into daily looks through the portrayal of traditional color aesthetics. The series adopted a minimalistic design with the use of comfortable fabrics and simple cutting, and enriched the layering of the overall style through a skillful mixing of different textures. It has also made a breakthrough on fashion style by creating the natural tone-on-tone fashion vibe for multiple indoor and outdoor settings, which has become a new driving force for business growth.
- Taking the promotion of environmentalism on the Earth Day as carrier and inspiration for creative designs, China LI-NING developed the “LEAVE NO TRACE” (大地無痕) themed products and launched the new LI-NING x Steven Harrington crossover series. The “LEAVE NO TRACE” (大地無痕) themed products incorporated the environmental protection slogan “LEAVE NO TRACE” and the sports-fashion attitude, and created eye-catching visual effects and self-expression. On the other hand, the new season of LI-NING x Steven Harrington crossover series adopted whimsical and light-hearted art illustrations to advocate the concept that it’s everyone’s responsibility to protect the earth in a street style. Meanwhile, the popular model “001 Mountains & Seas” (001山海) refreshed its image with the use of mountain-ish color options. The concept of exploring the mountains and seas echoed with the main theme and encouraged the public to return to the nature. Inheriting the fashionable attributes of the popular IP “Furious Rider” (烈駿) of the brand, the new model “Furious Rider RUNNER” (烈駿RUNNER) infused environmental concepts and sustainable materials to reinvent the classic millennial styles, embodying the fashion attitude and core spirit of “Care for Nature, Integrate with Nature” of youngsters nowadays.

Promote diversified marketing resources layout in full swing and enhance the communication with young consumers on a continuous basis

With a focus on the characteristics of the professional functions and sports casual category, we strengthened our comprehensive marketing resources layout. Continuous exposure of our professional products through sports stars and professional events has established a professional image of LI-NING's professional products among consumers and further scaled up our consumer groups. Besides, we further diversified the marketing with entertainment modes for the sports casual category and constantly created opportunities for experiencing our products and brought up various promotional topics. We have also established a platform for direct communication with consumers to increase brand competitiveness and appeal to consumers, and realized multi-dimensional exposure of our products.

- Leveraging the professional series, WADE series and BADFIVE series, LI-NING basketball continued to enhance the influence of LI-NING brand in the Chinese basketball market and further appeal to consumers through marketing activities for its brand and products based on key sports events and core athlete resources. With the exceptional performance of Jimmy Butler and D'Angelo Russell during the NBA Playoffs, we focused on the promotion of shoes models worn by the basketball players, thereby empowering the spirit of LI-NING brand of "Anything is Possible" with the real miracles on-court. The BADFIVE series reinforced the tonality of the series' DNA and produced the promotional video showcasing the brand attitude of the LIVE WITH HOOPS series. Integrated with the insights of the core consumer groups, the series portrayed the BADFIVE spirit in street style, and demonstrated the real basketball culture with scenarios that are more accessible to the target audience, so as to promote the concept that basketball is an inseparable part of daily lives.
- For our running products, we continued to conduct content marketing for million IP running shoes using the matrix concept, emphasizing that each of our running shoes is designed to satisfy different needs of runners. During the period, new products were launched by leveraging the influence of media from the running and running shoes community, thereby establishing the conceptual cognition of the matrix of LI-NING running shoes among core runners. We organized the "LI-NING BOOM" (李寧轟) running competition on Tmall Gathering Day in an effort to convert the traffic values into business volumes through the interaction between online and offline operations, as well as celebrity endorsement. Riding on the marathon season, we created continuous endorsement for our products with the competition results to attract consumers. Our running shoes set new records for the best results of running shoes under Chinese brands at the Tokyo Marathon and Barcelona Marathon during the first half of the year consecutively, and our brand was selected as one of the most popular brands among elite runners at the Tokyo Marathon by the media.
- As to our badminton products, professional functions remained the focus of LI-NING badminton's marketing. Continuing with the promotional theme of "We match better with you" (羽你更合拍), we focused on sponsorship resources, new product launch and amateur IP events for our online and offline promotion campaigns. In tandem with the integration of media platforms, we enhanced our brand reputation and developed various hot-selling products in support of the realization of the marketing goals. Under the theme of "It's More Than a Competition" (不止是一場比賽), we continuously innovated the competition format and increased the number of division for badminton competitions. We have created a grand competition that welcomes the participation of the general public and incorporates both fun and professional elements. We aimed to establish the competition as our exclusive brand sports event which served as a diversified platform for product experience, sports experience and competition services. At the competition venues, we set up interactive badminton games, ran product placement of LI-NING badminton sports equipment experience and arranged professional racket stringers to provide racket stringing services, hence conveying the sportsmanship of LI-NING badminton through the badminton enthusiasts participating in the competition.

- For women fitness, with the objective to develop a professional and fashionable Chinese women fitness brand that can compete with the world’s leading brands, we communicated to consumers our new brand attitude of “Dare to be Me” (敢為自己) for women, which was further showcased by Elaine Zhong (鍾楚曦), our spokesperson, VaVa (毛衍七), our contracted artist, and Sunny Liu (劉詩雯), our contracted athlete. The campaign conveyed to the general consumers LI-NING’s brand attitude of “Women Power Matters”, which helped to build up the brand’s confident, self-caring, beautiful and powerful image for women fitness. Consistent efforts were made to develop the LI-NING “Possible” (可能) Women Space Community IP with a matrix of KOL and trainers in metropolitan and first-tier cities. By establishing long-term cooperation relationship with major gym centers and community organization in urban areas, we constantly developed a diverse range of fitness experience programmes and activities, and fostered a bonding relationship between the brand and fitness enthusiasts. We also collaborated with KEEP and other professional and vertically-related online fitness platform resources, through which we jointly created professional fitness programmes and challenges to provide fitness enthusiasts the opportunities to “check-in” their sports activities and experience our products online, thereby forming an online-offline interactive experience model.
- For the sports casual, we continued to pass on the “innovative ideas” and “sincerity” of our brand and products. Based on the promotional theme of “Conjure New Interpretations, Grow Rich Everyday” (自有新意，日進斗金), we strived to develop the “Rich Everyday” (日進斗金) series as the signature story pack for Chinese New Year under LI-NING brand and endowed the series with new concepts of wealth and values that emphasize the discovery of new values in lives through accumulation of wealth every day. During the first half of the year, marketing contents for the “Rich Everyday” themed products received over 700 million views across all platforms with remarkable growth in terms of both topic discussions and authentic output by users as compared with last year. Furthermore, we cooperated with “Riding is Living” (RE而意), a bicycle themed lifestyle brand, to jointly organized a eco-friendly bike ride event on the Earth Day. During the event, we invited about 20 lifestyle-related bloggers to wear our “Oasis” themed shoes products and substitute car engines with bicycle pedals in promoting an energy-saving and emission-reducing lifestyle, while the participants may check out the versatility and comfort of the themed shoes products through the riding experience that highlights the product features.
- For marketing campaigns with entertainment, we continued to work with Xiao Zhan (肖戰), the global spokesperson of LI-NING’s fashionable sports products, to light passion with sports, release the energy of fashion and boast diverse styles with high-end fashion elements to jointly build a future of “Anything is Possible”. During the period, TNT (Teens In Times) (時代少年團) was contracted as the global spokesperson of LI-NING’s youth sports products. With their distinctive character and lively teenager image, TNT demonstrated versatile mix-and-match style and conveyed a young, positive, optimistic and healthy sports and fashion attitude. Under the theme of “TNT brings you the unlimited possibilities of youth” (時代少年創造青春無限可能), this collaboration connected with Z-generation consumers that have a passion for sports and fashions to feel the charm of sports and create unlimited possibilities for youth together. In addition, actress Chloe Gao (高葉) was contracted as the promotion ambassador of products under LI-NING 1990 to interpret the gentle and oblique product style, leading a new trend of urban outfits with versatile styles.

Continuously promote the upgrade of channel image with a focus on expansion and optimization of channels

During the first half of 2023, the Company remained focused on optimizing the channel structure and enhancing the channel efficiency. During the period, the Company launched big stores with high efficiency including flagship stores, benchmark stores and premium outlets on a continuous basis, while optimizing the store structure by accelerating the closure of low-efficiency stores. The Company continuously put greater effort in expanding channels, such as quality shopping malls owned by Hong Kong-invested enterprises and group-based outlets, so as to adapt to the new consumption trends and commercial changes in the post-pandemic era.

During the period, the development of the 9th generation image store was in full swing as the Company launched and promoted the new store image comprehensively with a view to providing better product experience, shopping experience and sports experience to all consumers. As of 30 June 2023, 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 7,448, representing a decrease of 155 POS as compared to 31 December 2022. The number of distributors was 48 (including sales channels of China LI-NING stores), representing a net decrease of 4 as compared to 31 December 2022. The number of POS breakdown as of 30 June 2023 is as follows:

LI-NING Brand	30 June 2023	31 December 2022	Change
Franchised	4,744	4,865	-2.5%
Directly-operated retail	1,423	1,430	-0.5%
LI-NING YOUNG	1,281	1,308	-2.1%
Total	<u>7,448</u>	<u>7,603</u>	-2.0%

Number of LI-NING Brand POS by geographical location

Regions	30 June 2023			31 December 2022			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region (Note 1)	3,139	762	3,901	3,184	786	3,970	-1.7%
Southern Region (Note 2)	3,028	519	3,547	3,111	522	3,633	-2.4%
Total	<u>6,167</u>	<u>1,281</u>	<u>7,448</u>	<u>6,295</u>	<u>1,308</u>	<u>7,603</u>	-2.0%

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 special administrative regions covering Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan, Guizhou, Tibet, Guangdong, Guangxi, Fujian, Hainan, Macau and Hong Kong.

Reinforce the product management mechanism and enhance product efficiency with increasing proportion of professional sports product

During the first half of 2023, the product management department continued to optimize customers' shopping experience. With key professional sports products as the core, the Company strengthened the management on inventories and products and hence enhanced the operation efficiency.

- Based on the core technology platform, the Company optimized its product planning and developed its core products by using materials with strong functional features to continuously enhance the core competitiveness of products, while increasing the number of distribution stores and the sales of core products at the same time. The Company also continued to improve the depth of inventory with key products as the core and optimized customers' shopping experience by lowering the "short-in-color" or "short-in-size" ratio. Meanwhile, through the continuous efforts in optimizing the operating mechanism with the synergy of "merchandise planning", "promotion and marketing planning" and "consignment site planning", the precision of sales was enhanced, hence maximizing the sales of the core products. Furthermore, 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 monthly inventory target and analyzed the soundness of inventory through weekly inventory meetings, whereby it was able to forecast the inventory at the end of the year and formulated and implemented the business improvement measures in relation thereto. At the same time, based on the annual and quarterly target inventory ageing structure, the Company accelerated destocking of old inventories, ensured the proportion of new product inventory and implemented weekly inventory control of stores to prevent the stores from being out-of-stock or short-in-size, thereby fulfilling the vision of “doing business best with more reasonable inventories”. The Company established a forecast and management mechanism based on the sales velocity of products in stores, i.e. being sold at a fast, moderate or slow pace. The mechanism not only enhanced the precision of inventory management and enabled the identification of inventory risk in relation to products sold at a slow or moderate pace as early as possible, but also accelerated the destocking of inventory on a timely basis.
- With professional running and basketball shoes as the core, the Company expanded the product matrix of “LI-NING BOOM” (李寧轟), its core technology platform with lightweight and high resilience features, and ensured the depth of the core products in order to prevent from being short-in-color and short-in-size. Meanwhile, the Company further improved the additional manufacturing order mechanism for professional running and basketball shoes, so that it may adjust the quantity and pace of product delivery to stores by leveraging its ability to produce a more accurate pre-sales forecast. Focusing on showcasing the professional product matrix of the core technology platform in stores, the Company carried out display and sales promotion of overall matching outfits with professional shoes and apparel products in order to foster product attraction at stores.

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

In the first half of 2023, the Company continued to explore the single-store operation model and entered a new stage with further improved retail operation and standard management, strengthened retail operation organisation, and the efficiency of store execution was enhanced. The Company also developed a new retail business system and optimised the operation efficiency of retail stores on a continuous basis.

- In ensuring the effective rollout of our big store sales plan, the Company strengthened the monthly sales plan management mechanism for big stores through optimising the sales planning instruments, improved the accuracy of sales plans, strictly implemented the plan confirmation mechanism for retail front managers, and executed the implementation and verification mechanism based on these plans. Meanwhile, the Company continued to validate and optimise the big store management system, and further expanded the scope of application of such management system in the retail end.
- The Company kept improving the retail operation standard system and completed the compilation of various standard manuals, including “LI-NING Retail Operation Manual” (2nd Edition), “Big Store Management Manual”, “New Store Execution Manual” and “New Store Employee Operation Manual”. Meanwhile, the Company continued to strengthen the internal monitoring of the implementation of the retail standards in stores to assess their standards execution capability, as well as the applicability and reasonableness of such standard system. The Company also optimised and improved the retail end proposal system and strengthened the support and prompt response of the headquarters function to stores to boost the efficiency of retail operations.
- The Company newly established a retail operation and execution team that focuses on the implementation and execution of retail business. Hence, a normalised management loop in respect of business execution at stores, namely “order giving by headquarters, information confirmation by retail end, business execution by stores and supervision by headquarters”, which intensified the headquarters’ communication with the retail end and improved the efficiency of store execution continuously. In the second half of the year, on the basis of the improved retail execution efficiency, the Company will continue to promote the development in three key management areas, namely the “improvement of retail front capability”, “optimisation of headquarters’ functions” and “refinement of operation issues”, with a view to further improving the retail execution efficiency.

- In respect of new retail business, the Company’s goal for the year was to build up four core competencies for its retail end, namely “community management”, “content production”, “live streaming business” and “live streaming talent cultivation”. During the period, the Company conducted live streaming business in the core stores and initially built up the live streaming capability of its store employees. In the future, the Company will further improve the content production mechanism of stores, strengthen communication with consumers and customer loyalty, and improve the efficiency of community conversion and live streaming conversion, while further exploring the out-of-store transaction scenarios to better satisfy the shopping needs of customers thereunder and continue to improve the shopping experience of consumers.

Promote the digitalisation of logistics system to optimise logistics efficiency and quality

In the first half of 2023, the Company completed the construction of regional central warehouses to improve the operation efficiency of logistics centres, while stepping up its effort in enhancing logistics informatization to ensure transparency throughout the logistic information chain of products, which has in turn helped to improve the efficiency at retail front and provided strong logistics support for retail management.

- The Company continuously improved the quality of the logistics network. Following the completion of the four regional central warehouses in 2022, the Company has further established its warehouse and distribution network. During the period, the Company deepened the construction of the smart logistics centres, which improved the quality and timeliness of direct delivery of products to directly-operated stores and wholesale stores through efficient automated operation solutions.
- The Company continued to refine the management of the logistics business for higher logistics efficiency and quality, while formulating the warehouse and distribution business plan for each business division to help improve the quality of logistics services. During the period, the Company continued to improve the proportion of direct delivery at stores and the proportion of the use of same packaging box for the same product. The proportion of direct delivery to directly-operated stores and wholesale stores exceeded 70% and 20%, respectively, while the proportion of the use of same packaging box for the same product was 70%. At the same time, the Company commenced the medium-to-long-term planning of logistics, warehouse and distribution for individual business division to support the rapid development of kidswear, badminton, table tennis and other business divisions.
- The Company launched the logistics management platform in full, with its middle-end information platform fully covering all scenarios of the Company’s logistics business, including warehousing appointment, delivery planning, transportation management and fee settlement. Meanwhile, the realisation of order visualisation and electronic receipt confirmation helped to streamline processes at retail front and enhance efficiency at stores.
- The Company kick-started the warehouse automation project, whereby the four logistics centres fully adopted automated operation for direct delivery orders and product returns. As a result, the efficiency of logistics operations, sorting operations and storage increased by over 20%, 60% and 120%, respectively.

Further develop professional products and strengthen digitalization operation to consolidate the core competitiveness of e-commerce

The entire online sports industry faced challenges in the first half of 2023. Amidst the market environment with fluctuating demands, the e-commerce team of Li Ning Company guaranteed that all operation activities were carried out steadily and orderly while gradually improving its business performance through refined operational measures and long-running digitalization operation. During the period, the e-commerce business of Li Ning Company returned to the normal growth track.

The e-commerce of Li Ning Company remained focused on functional products and maintained a stable proportion of professional products. Based on the core strategies, the team gained in-depth customer insights and promoted communication with consumers, which gradually facilitated the operation at a steady and positive pace and hence consolidated the core competitiveness of e-commerce. Meanwhile, 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 and is dedicated to original designs. 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 continued to push forward membership recruitment and operation during the period to strengthen the accumulation of membership as an asset. The total number of members and the cross-channel transaction volume through diversion of registered members online to offline transactions recorded a double-digit 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 for experience in respect of our products and services. By promoting the execution of omni-channel strategy in offline stores on an ongoing basis, more than 500 stores were newly integrated into our omni-channel system during the period. The e-commerce of Li Ning Company will continue to put greater efforts in exploring universal distribution, so as to enhance the interaction with consumers leveraging on the dual engines of contents and expertise.

Looking forward into the second half of the year, the e-commerce of Li Ning Company will continue to develop the professional sports sector while enhancing consumers’ recognition and loyalty to technological and professional products, and, on the basis of which, expand its business into the sports fashion segment gradually. Meanwhile, the development of universal distribution system for offline stores will be further strengthened. The business synergy strategy will also be constantly optimized and strictly implemented for online and offline operations.

Develop an industry-leading flexible supply system for a sustainable supply chain

In the first half of 2023, the Company continued to pursue the essential task of strengthening the supply chain, and consolidated the enhancement in terms of production quality, lead time and cost, which laid a foundation for the transition from “passive production” to “proactive production”. It continued to push forward the development of the “value supply chain” with a view to creating greater value by reducing wastage and enhancing efficiency. Besides, the Company established an equal and win-win mechanism with suppliers and partners for, as part of performance of its environmental and social responsibilities, promoting environmentally-friendly products in an orderly manner. Innovative efforts have further build up our product competitiveness, enabling us to provide better product experiences to consumers.

- With consistent efforts devoted to the research and development of innovative technology, the Company has developed functional professional products with moisture-absorbing and quick-dry capability, among which the quick-dry capability of its yarn-knitted fabric has secured a leading position in the industry. During the period, the fabric has been applied to tops for running and training purposes. The scope of research and development in the later stage has been extended to the second-layer fabric of clothing, and the application of which has been expanded to the full range of products, including sports tops, sports pants and sports towels, thereby forming an application matrix of the yarn technology platform. Looking forward, the Company will increase the investment in front-end research, development and innovation in a bid to create industry-leading professional products with high performance. On the basis of “Comfoam”, the midsole technology applied to footwear under the “SOFT” series, the Company has also developed “Comfoam Plus” and “Comfoam Lite” formula which are more elastic and lightweight, respectively, which diversified the technology matrix of the “SOFT” product line. Additionally, the CPU and GCU integrated moulding technique for outsole materials helped reduce weight significantly and improved the comfort of sneakers.

- The Company further affirmed the adoption of quality management system throughout the supply chain, and strived to improve the quality management capability of suppliers from quality certification to training and assessment. Trainings for suppliers with strategic cooperation relationship have been completed, aiming to promote the alignment of factory processes and standards with that of our brand, and to improve work standards and efficiency. The Company also reorganized the quality management process and formulated corresponding operation guidelines, process control manuals and other regulations for on-site management. Upon communication and coordination with the front-end businesses and suppliers, the Company has established a business-oriented production plan control mechanism to shorten average lead time and improve its flexible supply capability.
- The Company continued to promote digitalisation with the newly launched system PLM (Product Lifecycle Management) already being applied to brand operations. In respect of suppliers, the Company simultaneously promoted the reinforcement of digitalisation of factories, which included supporting major partnering factories to upgrade the functions of their MESs (Manufacturing Execution Systems) to get them well-prepared for the integration of data between our brand and the suppliers. During the period, the Company studied the promotion and use of 3D printing moulds and continued to optimise the mould structure with a focus on the promotion of water pipe mould and its standardised application. The Company has applied for national utility model patent for the water pipe mould.
- In respect of social responsibility, the Company developed such policies and systems as the “Supplier Management System”, “Supplier Social Responsibility Management Manual of LI-NING” and “Implementation Guidelines on Social Responsibility of LI-NING’s Suppliers”, issued the “Management Commitment on Anti-forced Labor”, and formed internal system procedures such as the “Internal Risk Management Procedure for Anti-forced Labor in Supply Chain of Li Ning Company Limited”. In 2023, with reference to the domestic and international social responsibility indicators systems, we continued to improve the evaluation system of suppliers’ social responsibility, so as to strengthen the management over social risks of suppliers, and drive partners along our brand value chain to better fulfil their social responsibilities and hence build a sustainable value chain.
- In May 2023, the Company became a member of the United Nations Global Compact (UNGC), currently the largest international organisation in the world promoting corporate sustainability with more than 20,000 corporate and other stakeholder members from nearly 170 countries. Committed to the ten principles of UNGC in the four areas of human rights, labour standards, environment and anti-corruption, the Company incorporated sustainability into its corporate strategies and operations, and continued to perform its corporate social responsibility with high standards as always along its journey towards our vision of sustainability.
- The Company encouraged suppliers, where appropriate, to benchmark against the relevant domestic and international sustainability standards and obtain relevant certifications for responsible production. We attached importance not only to the social and environmental management of our suppliers, but also to their protection of animal welfare. Since 2014, the down factories cooperating with the Company have gradually obtained RDS (Responsible Down Standard) certification and have now achieved 100% coverage. Through the RDS certification, we took the humanitarian protection of animals as our starting point and envisioned to use downs and feathers from animals that have not been unnecessarily harmed in any way to the largest extent during our procurement and production process.

NEW BUSINESS

LI-NING YOUNG

In the first half of 2023, LI-NING YOUNG optimized its product mix, scaled up its efforts in the development of professional sports product lines and enhanced channel efficiency, with a view to promoting business growth on an ongoing basis.

- In respect of products, the Group continued to streamline various product lines and optimized its product structure. It has established the professional sports matrix with strong emphasis on running, professional basketball and integrated fitness, and continuous efforts have been made in the innovation of product technology, material, categorization and style. Based on the characteristics of the body shape of kids and their needs of sports, the Group has set tone for the block design and direction of research and development, thereby steadily establishing a technology matrix for kids in combination with the existing technology resources of the Company.
- For channel development, we continued to increase the proportion of stores in high-tier markets, improve store planning 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. The Group has put in place channel development strategies to further tap into the high-tier markets, at the same time paying attention to its outlets system. These initiatives have contributed to a higher proportion of high-tier market channels, thereby further optimizing the channel structure. The Group has expedited the development of high-efficiency 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.
- For marketing, the Group consolidated its marketing resources and promoted the implementation of integrated marketing campaigns. Riding on the Group's marathon resources and the spring marketing cycle for running products, the Group promoted the professional running shoes "Super Light 20th YOUNG" (超輕20 YOUNG) and other integrated fitness and running apparel products via family activities of the running club, marathon events and live-streaming or on-site sales activities held in Wuxi, Shenzhen and Qingdao. Meanwhile, the Group also organized family activities for over 300 families in Guangzhou and Changsha, and facilitated the smooth running of the primary school basketball league in 15 cities. Furthermore, the Group sponsored and collaborated with organizations including Hubei Football Association, Wuhan Football Association and Beijing Football Association, which fueled the business growth of LI-NING YOUNG football.
- As of 30 June 2023, LI-NING YOUNG has a total of 1,281 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

Based on the strategic goal of the Company, the human resources department pushed forward organizational reform, talent development, upgrade of performance system and promotion of cultural values in an orderly manner, putting persistent efforts in building a “muscular organization”.

- Regarding organizational development, the Company placed emphasis on promoting the development of a retail operation and management system to boost its retail operation capability and efficiency and to improve the standard of refined business management. Meanwhile, the Company reformed and upgraded the operating model of human resources organization to expedite the transformation of human resources. By innovating the organizational mechanism, the Company optimized the structure and enhanced the operation efficiency of the organization.
- In terms of talent management, the Company continued to optimize the talent supply chain management system by gradually building a reserve of multi-level talents, developing diversified channels for talent recruitment and accelerating the nurturing of management trainees. It stepped up its efforts in recruiting core talents for key positions and strengthening the reserve of young talents, with a view to providing sufficient talent guarantee for the strategic development of the Company.
- In terms of remuneration and performance management, the Company implemented a result-oriented remuneration and incentive system that values fairness, and made steady and orderly progress in the implementation of a corporate and employee performance indicator system, thereby fostering an organic connection between corporate performance and individual performance. The establishment of a result-oriented and high-performance culture that upholds strategic collaboration, fairness and integrity would ensure a consistent direction for overall development to create synergy across the Company.
- Regarding culture and staff relationship, the Company continued to promote the core values of its corporate culture by organizing seminars on core values for managers at different levels and offering trainings, learning activities and certification to all employees. It devoted continuous efforts in building a cultural value and atmosphere that motivate full engagement and collective commitment to foster the understanding and appreciation of the Company’s core values among employees, which have been adopted as the code of conduct and judgement criteria to guide business practices. In addition, the Company cooperated with the labor union to hold a variety of company activities, such as tree planting activities, movie-viewing events, swimming, running and badminton games, as well as health and safety seminars for female employees, in a bid to enrich the leisure life of employees and continuously enhance their health awareness. Furthermore, activities on bringing love and warmth to employees were carried out to provide assistance to staff members of the Company in difficulty, which helped to enhance the satisfaction and engagement of employees.

In the future, the Company will invariably focus on business strategies and further promote the reform and digitalization of the human resources operating model. It will also optimize the remuneration and incentive system, improve talent review and training, and refine the application and implementation of the core values in business scenario, with a view to continuously fostering and iterating on the core organizational capacity of the Company.

As at 30 June 2023, the Group had 4,672 employees (31 December 2022: 4,610 employees), among which 4,495 employees were at the Group’s headquarters, Guangxi Supply Base and retail subsidiaries (31 December 2022: 4,422 employees), and 177 employees were at other subsidiaries (31 December 2022: 188 employees).

OUTLOOK

Looking forward into the second half of 2023, with the weakening downside momentum of the global economy and the falling inflation of major economies, the global service sector will see a steady recovery. However, the revival of the manufacturing and commodity trading sectors will remain sluggish and face hardship. The overall Chinese economy will continue to recover with sustained moderate recovery of the consumption market, hence achieving both the goal of boosting consumer confidence and promoting consumption. While focusing on professional sports, brand reputation and product innovation, the Group will continue to pursue the core strategy of “Single Brand, Multi-categories, Diversified Channels” and realize sustainable growth and profitability of LI-NING by leveraging the organizational capacity as a “muscular” corporation.

- In respect of products, we will remain committed to the research and development for improvement of product functions and technological innovation. We aim to provide consumers with more professional and functional sports products integrated with fashionable elements, which will better showcase the sports fashion culture and provide consumers with diversified consumption experience, and hence expand our brand influence. Meanwhile, we will continue to optimize the professional product matrix and increase the proportion of professional products by upgrading the fabrics and enhancing the technology attributes of products;
- For channel layout, with optimization of channel structure and enhancement of channel efficiency as our focus, we will continue to develop the channel layout of big stores with high efficiency with a view to providing better product experience, shopping experience and sports experience to the consumers. At the same time, we will accelerate the rectification of low-efficiency stores with enhancing and optimizing store efficiency as our main business goal, so as to resume our high-quality growth trajectory;
- In respect of retail operation and supply chain, we will strengthen our product management and upgrade our logistics strategies to maintain the efficiency of inventory turnover. Channel upgrade and transformation in tandem with the integration of online and offline channels will be implemented in a bid to optimize the efficiency of retail operation. In order to improve the supply chain structure and logistics system, we will promote supply chain reform and adopt proactive production based on consumers’ demand to strengthen the agile supply and rapid response ability of the supply chain;
- For marketing, we will place emphasis on the investments in marketing resources and strive to constantly upgrade our professional brand image as well as deepen consumers’ awareness of LI-NING brand with an aim to establish the brand as consumers’ first-choice professional sports brand;
- In respect of new business, focusing on enhancing profitability as well as store efficiency and performance, we will flexibly utilize resources in an innovative manner, explore business opportunities and market potential in order to promote the growth and sustainability of our businesses.

Under the support of national policies, the Company will steer its efforts towards the development of public sports with Chinese characteristics, making new and greater contribution in building the country into a healthy and strong sports nation. The Company will seek to become widely accepted by the general public with more diversified channels and products, open up rooms for development in the longer-term, as well as create values for the society, the public and the industry, all the while leading the Chinese sports industry to expand its presence on the global stage and bringing the spirit of “Anything is Possible” into real practice.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2023. Except for the purchase of shares by the trustee of the restricted share award scheme of the Company (the “Restricted Share Award Scheme”) pursuant to the trust deed and the rules of the Restricted Share Award Scheme, neither the Company nor any of its subsidiaries purchased or sold any of the Company’s shares during the period.

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 2023 and up to the date of this announcement.

CORPORATE GOVERNANCE

For the period from 1 January 2023 to 30 June 2023, the Company has complied with all the code provisions of the Corporate Governance Code (the “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 separated and should not be performed by the same individual. During the six months ended 30 June 2023, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (the “Joint CEO”), and Mr. Kosaka Takeshi, the Executive Director and the 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 the Executive Chairman and the 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 its shareholders as a whole.

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) contained in Appendix 10 to the Listing Rules as its code of conduct 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 standards set out in the Model Code throughout the six months ended 30 June 2023.

The audit committee of the Company, consisting of three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2023.

The Company’s external auditor, PricewaterhouseCoopers, has performed a review of the Group’s interim financial information for the six months ended 30 June 2023 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, 10 August 2023

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, Dr. Chan Chung Bun, Bunny and Ms. Wang Yajuan.