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TOPSPORTS INTERNATIONAL HOLDINGS LIMITED

滔搏國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6110)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2022

FINANCIAL HIGHLIGHTS

		Unaudited	
		Six months ended 31 August	
		2022	2021
Revenue	RMB million	13,218.0	15,573.4
Gross profit	RMB million	6,030.7	6,923.5
Operating profit	RMB million	1,580.5	2,059.7
Profit attributable to the Company's equity holders	RMB million	1,145.4	1,430.8
Gross profit margin	%	45.6	44.5
Operating profit margin	%	12.0	13.2
Profit margin attributable to the Company's equity holders	%	8.7	9.2
Earnings per share – basic and diluted	RMB cents	18.47	23.07
Dividend per share - interim	RMB cents	13.00	13.00
Average trade receivables turnover period	days	16.4	19.4
Average trade payables turnover period	days	16.4	21.2
Average inventory turnover period	days	167.6	147.8
		Unaudited	Audited
		As at 31 August	As at 28 February
		2022	2022
Gearing ratio	%	Net cash	Net cash
Current ratio	times	2.2	2.3

INTERIM RESULTS

The board of directors (the “Board” or “Directors”) of Topsports International Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 August 2022, together with comparative information for the same period of 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Note	Unaudited	
		2022	2021
		RMB million	RMB million
Revenue	4	13,218.0	15,573.4
Cost of sales	6	(7,187.3)	(8,649.9)
Gross profit		6,030.7	6,923.5
Selling and distribution expenses	6	(4,090.8)	(4,542.5)
General and administrative expenses	6	(574.3)	(634.6)
Reversal of impairment of trade receivables		1.5	3.0
Other income	5	213.4	310.3
Operating profit		1,580.5	2,059.7
Finance income		48.6	73.1
Finance costs		(111.3)	(110.8)
Finance costs, net	7	(62.7)	(37.7)
Profit before income tax		1,517.8	2,022.0
Income tax expense	8	(372.4)	(591.2)
Profit for the period attributable to equity holders of the Company		1,145.4	1,430.8
		RMB cents	RMB cents
Earnings per share for profit attributable to equity holders of the Company during the period			
Basic and diluted earnings per share	9	18.47	23.07

**CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Unaudited	
	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Profit for the period attributable to equity holders of the Company	1,145.4	1,430.8
Other comprehensive income/(loss)		
<i>Items that will not be reclassified to profit or loss</i>		
Exchange differences	29.1	(25.2)
	<hr/>	<hr/>
Total comprehensive income for the period attributable to equity holders of the Company	1,174.5	1,405.6
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CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2022

		Unaudited	Audited
		As at	As at
		31 August	28 February
		2022	2022
	Note	RMB million	RMB million
ASSETS			
Non-current assets			
Property, plant and equipment		806.2	1,009.1
Right-of-use assets		2,894.9	3,099.7
Intangible assets		1,085.1	1,092.9
Long-term deposits, prepayments and other receivables		299.4	309.4
Long-term pledged bank deposits		-	1,000.0
Deferred income tax assets		294.0	305.0
		<u>5,379.6</u>	<u>6,816.1</u>
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Current assets			
Inventories	11	6,403.6	6,686.2
Trade receivables	12	1,254.7	1,106.9
Deposits, prepayments and other receivables		1,376.0	1,434.5
Financial asset at fair value through profit or loss		20.0	-
Short-term pledged bank deposits		1,578.4	-
Bank balances and cash		1,676.6	1,752.6
		<u>12,309.3</u>	<u>10,980.2</u>
		-----	-----
Total assets		<u>17,688.9</u>	<u>17,796.3</u>
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CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2022

		Unaudited	Audited
		As at	As at
		31 August	28 February
		2022	2022
	Note	RMB million	RMB million
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,863.7	1,970.2
Deferred income tax liabilities		298.5	372.1
		<u>2,162.2</u>	<u>2,342.3</u>
Current liabilities			
Trade payables	13	354.2	926.7
Other payables, accruals and other liabilities		1,362.5	1,644.9
Short-term borrowings	14	2,028.0	518.2
Lease liabilities		1,271.7	1,086.2
Current income tax liabilities		614.7	696.5
		<u>5,631.1</u>	<u>4,872.5</u>
Total liabilities		<u>7,793.3</u>	<u>7,214.8</u>
Net assets		<u>9,895.6</u>	<u>10,581.5</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		-	-
Other reserves		1,681.0	3,511.5
Retained earnings		8,214.6	7,070.0
Total equity		<u>9,895.6</u>	<u>10,581.5</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 AUGUST 2022

	Unaudited	
	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Cash flows from operating activities		
Net cash generated from operations	2,133.7	3,325.4
Income tax paid	(516.8)	(753.7)
	1,616.9	2,571.7
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible assets	(143.1)	(277.9)
Proceeds from disposals of property, plant and equipment	0.3	2.7
Placement of other bank deposits	(551.0)	(1,899.6)
Withdrawal of other bank deposits	551.0	1,849.6
Payment for purchase of financial asset at fair value through profit or loss	(20.0)	-
Interest received	29.9	28.1
	(132.9)	(297.1)
Cash flows from financing activities		
Proceeds from bank borrowings	2,028.0	3,203.8
Repayments of bank borrowings	(518.2)	(3,707.2)
Placement of short-term pledged bank deposits	(578.4)	-
Payments for lease liabilities (including interest)	(615.2)	(1,176.0)
Interest paid for bank borrowings	(15.8)	(11.9)
Dividends paid	(1,860.4)	(744.1)
	(1,560.0)	(2,435.4)
Net decrease in cash and cash equivalents	(76.0)	(160.8)
Cash and cash equivalents at beginning of the period	1,752.6	1,228.8
Cash and cash equivalents at end of the period	1,676.6	1,068.0

NOTES

1 General information

Topsports International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in the sales of sportswear products and leasing commercial spaces to other retailers for concessionaire sales in the People’s Republic of China (the “PRC”).

The Company was incorporated in the Cayman Islands on 5 September 2018 as an exempted company with limited liability under the Companies Law (2018 Revision) of the Cayman Islands, Cap.22, (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time. The address of the Company’s registered office is P.O. Box 309, Umland House, Grand Cayman KY1-1104, Cayman Islands.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 October 2019. As at 31 August 2022, no party holds more than 50% equity interest in the Company.

The condensed consolidated interim financial information for the six months ended 31 August 2022 is presented in Renminbi (“RMB”) and all values are rounded to the nearest 0.1 million (“RMB0.1 million”) except when otherwise indicated.

The condensed consolidated interim financial information for the six months ended 31 August 2022 is unaudited and has been reviewed by the audit committee and external auditor of the Company. The condensed consolidated interim financial information was approved for issue by the Board of Directors on 25 October 2022.

2 Basis of preparation and accounting policies

The condensed consolidated interim financial information for the six months ended 31 August 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and should be read in conjunction with the annual consolidated financial statements for the year ended 28 February 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 28 February 2022, except as mentioned below.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 March 2022:

- Narrow-scope amendments – Amendments to IFRS 3, IAS 16 and IAS 37
- Property, Plant and Equipment – Amendments to IAS 16
- Onerous Contracts – Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Annual Improvements to IFRSs 2018 – 2020 Cycle – Annual Improvements

The above amendments did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current and future periods.

2 Basis of preparation and accounting policies (Continued)

(b) New standards and amendments to standards that have been issued but are not yet effective

A number of new standards, amendments to existing standards and interpretation have been published that are not mandatory for reporting period beginning 1 March 2022 and have not been early adopted by the Group:

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
IFRS 17	Insurance Contracts ⁽¹⁾
Amendments to IFRS 17	Amendments to IFRS 17 ⁽¹⁾
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ⁽¹⁾
Amendments to IAS 8	Definition of Accounting Estimates ⁽¹⁾
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction ⁽¹⁾
Amendments to IFRIC – Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁽¹⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽²⁾

(1) Effective for the Group for annual period beginning on 1 March 2023.

(2) Effective date to be determined.

The Board of Directors has performed an assessment on these new and amended standards and have concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group's financial performance and position.

(c) Tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 Segment information

The Group is principally engaged in sales of sportswear products and leasing commercial spaces to other retailers for concessionaire sales.

The chief operating decision-maker (the "CODM") has been identified as the executive directors and senior management of the Company. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports provided for review by the CODM. The CODM assesses the performance of the Group's business activities as a whole on a regular basis and the Board of Directors considers that the Group has only one reportable segment. Accordingly, no segment information is presented.

All of the Group's revenues are derived from external customers located in the PRC.

As at 31 August 2022 and 28 February 2022, substantially all of the non-current assets of the Group were located in the PRC.

4 Revenue

	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Sale of goods	13,101.6	15,421.3
Concessionaire fee income	91.1	120.8
Others	25.3	31.3
	<u>13,218.0</u>	<u>15,573.4</u>

5 Other income

	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Government incentives (note)	213.2	310.3
Others	0.2	-
	<u>213.4</u>	<u>310.3</u>

Note: Government incentives comprise subsidies received from various local governments in the PRC.

6 Expenses by nature

	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Cost of inventories recognized as expenses included in cost of sales	7,167.5	8,476.3
Staff costs	1,488.0	1,618.4
Lease expenses (mainly including concessionaire fee expenses)	1,053.8	1,251.2
Depreciation on right-of-use assets	771.6	917.4
Depreciation on property, plant and equipment	334.5	331.8
Amortization of intangible assets	12.9	15.5
Gain on disposal of right-of-use assets (included in selling and distribution expenses)	(7.1)	(15.9)
Loss on disposal of property, plant and equipment	0.4	1.0
Write-off of property, plant and equipment	5.1	3.2
Impairment of inventories recognized as expenses included in cost of sales (Note 11)	19.8	173.6
Impairment on right-of-use assets (included in selling and distribution expenses)	43.3	41.2
Impairment on property, plant and equipment	14.8	-
Other tax expenses	40.1	68.3
Others	907.7	945.0
	<u>11,852.4</u>	<u>13,827.0</u>

7 Finance costs, net

	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Interest income from bank deposits	48.6	46.8
Exchange gains, net	-	26.3
Finance income	<u>48.6</u>	<u>73.1</u>
Interest expense on bank borrowings	(15.9)	(12.3)
Interest expense on lease liabilities	(91.2)	(98.5)
Exchange losses, net	(4.2)	-
Finance costs	<u>(111.3)</u>	<u>(110.8)</u>
Finance costs, net	<u>(62.7)</u>	<u>(37.7)</u>

8 Income tax expense

	Six months ended 31 August	
	2022	2021
	RMB million	RMB million
Current income tax - PRC corporate income tax		
- Current period	312.8	567.1
- Over-provision in prior years	(11.7)	(8.8)
- Withholding tax	133.9	-
Deferred income taxes	(62.6)	32.9
	<u>372.4</u>	<u>591.2</u>

Income tax expense has been provided for at the tax rates prevailing in the tax jurisdictions in which the Group operates.

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (six months ended 31 August 2021: 16.5%). No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

During the period, most of the PRC established subsidiaries of the Company are subject to the PRC corporate income tax rate of 25% (six months ended 31 August 2021: 25%) except that certain subsidiaries are subject to preferential tax rates ranging from 2.5% to 15% (six months ended 31 August 2021: 2.5% to 15%) and other preferential tax treatments.

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between the Mainland China and Hong Kong, the relevant withholding tax rate applicable will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

9 Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

		Six months ended 31 August	
		2022	2021
Profit for the period attributable to equity holders of the Company	RMB million	<u>1,145.4</u>	<u>1,430.8</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	thousand of shares	<u>6,201,222</u>	<u>6,201,222</u>
Basic earnings per share	RMB cents	<u>18.47</u>	<u>23.07</u>

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share during the six months ended 31 August 2022 and 2021.

10 Dividends

- (a) At a meeting held on 25 October 2022, the directors declared an interim dividend of RMB13.00 cents or equivalent to HK\$13.78 cents per ordinary share (totaling RMB806.2 million) for the year ending 28 February 2023, which was declared after the end of the reporting period is not reflected as dividend payable in the interim financial information.
- (b) At a meeting held on 30 May 2022, the directors recommended a final dividend of RMB7.00 cents or equivalent to HK\$8.09 cents per ordinary share (totaling RMB434.1 million) and a special dividend of RMB23.00 cents or equivalent to HK\$26.58 cents per ordinary share (totaling RMB1,426.3 million) for the year ended 28 February 2022, which were paid during the six months ended 31 August 2022.
- (c) At a meeting held on 28 October 2021, the directors declared an interim dividend of RMB13.00 cents or equivalent to HK\$15.65 cents per ordinary share (totaling RMB806.2 million) for the year ended 28 February 2022, which was paid during the year ended 28 February 2022.
- (d) At a meeting held on 24 May 2021, the directors recommended a final dividend of RMB12.00 cents or equivalent to HK\$14.33 cents per ordinary share (totaling RMB744.1 million) for the year ended 28 February 2021, which was paid during the six months ended 31 August 2021.

11 Inventories

	As at 31 August 2022 RMB million	As at 28 February 2022 RMB million
Merchandise for sale and consumables	6,542.8	6,805.6
Less: provision for impairment losses	(139.2)	(119.4)
	<u>6,403.6</u>	<u>6,686.2</u>

The cost of inventories amounting to RMB7,167.5 million (six months ended 31 August 2021: RMB8,476.3 million) and the changes in provision for impairment of inventories amounting to RMB19.8 million (six months ended 31 August 2021: RMB173.6 million) were included in cost of sales during the period ended 31 August 2022.

12 Trade receivables

	As at 31 August 2022 RMB million	As at 28 February 2022 RMB million
Trade receivables	1,261.0	1,114.7
Loss allowance	(6.3)	(7.8)
	<u>1,254.7</u>	<u>1,106.9</u>

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date. As at 31 August 2022, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at 31 August 2022 RMB million	As at 28 February 2022 RMB million
0 to 30 days	1,171.9	1,064.3
31 to 60 days	69.0	40.0
61 to 90 days	7.2	1.4
Over 90 days	12.9	9.0
	<u>1,261.0</u>	<u>1,114.7</u>
Loss allowance	(6.3)	(7.8)
	<u>1,254.7</u>	<u>1,106.9</u>

The carrying amounts of trade receivables approximate their fair values and are denominated in RMB.

13 Trade payables

The credit periods granted by suppliers generally range from 0 to 60 days. As at 31 August 2022, the aging analysis of trade payables, based on invoice date, is as follows:

	As at 31 August 2022 RMB million	As at 28 February 2022 RMB million
0 to 30 days	351.2	921.3
31 to 60 days	1.7	3.9
Over 60 days	1.3	1.5
	<u>354.2</u>	<u>926.7</u>

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term nature.

14 Short-term borrowings

	As at 31 August 2022 RMB million	As at 28 February 2022 RMB million
Unsecured bank borrowings (note (a))	-	518.2
Secured bank borrowings (note (b))	2,028.0	-
	<u>2,028.0</u>	<u>518.2</u>

Notes:

- (a) As at 28 February 2022, the Group's unsecured bank borrowings carried interest at floating rates with weighted average interest rate of 1.2% per annum. The carrying amounts of the Group's short-term bank borrowings are denominated in HKD which approximate their fair values.
- (b) As at 31 August 2022, the borrowings were secured by the short-term pledged bank deposits of RMB578.4 million. The carrying amount is denominated in RMB which approximates its fair value. The borrowing carries interest at fixed rates with weighted average interest rate of 1.7% per annum.
- (c) As at 31 August 2022 and 28 February 2022, bank deposits of RMB1,000.0 million were pledged to bank against bank credit facility which did not utilised by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Challenging Business Conditions in a Turbulent Retail Environment

Looking back at the first half of the financial year ending 28 February 2023, we see market dynamics continued to pose challenges to our daily operations on multiple dimensions. Since the late half of March of 2022, the outbreak of Omicron variant has gradually spread across the country and led to uneven and enduring impacts in multiple regions. The results were even more long-lasting nowadays with higher number of monthly new confirmed cases versus 2020, although in terms of the intensity of impact, it was incomparable to what we witnessed at the outset of the pandemic in early 2020, the repercussion was more long-lasting. As of now, the overall recovery appeared to be uneven and non-linear.

The pandemic has inevitably hindered the overall retail traffic and market performance of the consumer sector, which leads to more prudent spending and investing mindset with raised preference over saving, in conjunction with evolved consumption behavior. According to National Bureau of Statistics of China, China's GDP recorded a year-on-year growth of 4.8% during the first quarter of 2022, which still outperformed market expectations. However, economic growth during the second quarter slowed to 0.4%, resulting in a 2.5% year-on-year GDP growth in the first half of 2022 (vs. YoY growth of 12.7% in the same period last year). During the same period, consumption expenditure per capita increased by 0.8% in real terms, while per capita deposits increased by 10% by the end of June 2022 as compared with the level by the end of 2021. The total retail sales of consumer goods decreased by 0.7% year-on-year (vs. YoY growth of 23.0% in the same period last year), of which the garments, footwear, hats and knitwear fell by 6.5% year-on-year, reflecting challenging conditions for overall consumption demand.

Despite overall headwinds in consumption, supportive national policies are the linchpins, provide significant support to the sustainable growth of sports industry. In particular, the National Fitness Program (2021-2025) issued in August 2021 aims to create a market of RMB5 trillion to the sports goods industry. During the following year, the State Council, General Administration of Sport and other relevant departments successively promoted related policies to minimize the hurdles and ensure smooth execution of related programs. In addition, in July 2022, the General Administration of Sport released a series of work plans proposing 42 specific measures to assist enterprises in alleviating difficulties and enlarge the supply scale of sports goods. Such work plans include enriching sports activities, elevating participations, encouraging more new openings of public sports venues, and promoting sports demand as well as related employment in the sports industry. Nevertheless, despite the results weighed on overall market demand and consumer behaviors amid the recurrent pandemic outbreaks, the broad appeal of public awareness towards health has been elevated, thereby fostering sports exercise habits in broader scale coupled with expanded participation and diversified sports categories.

Recalibrate and Enhance Omni-Operation Capability with Long-term Focus on Core Competencies for High-Quality Earnings

In spite of overall headwinds in consumption caused by the pandemic, our operating capabilities iterated even more thoroughly to cope with the ever-changing external market conditions, consumer preferences and demand. We have proactively confronted and embraced challenges through synergizing our scale while reiterating on quality fueled by efficient operation, enhancing our consumer engagement as well as deepening cooperation with business partners. We recalibrated our Omni-operation and digital capability with enriched brands portfolio, which enable us to swiftly navigate market dynamics and cater to consumer demands. By leveraging on our over twenty years of experience in efficient operation, these attempts, trials, and iterations all are wealth persistently fortifying the moat of the Company, which is also the strength for us to hold the confidence in ourselves with industry leading efficiency to confront market headwinds jointly with our upstream and downstream strategic partners.

In the first half of the financial year ending 28 February 2023, the pandemic has notably disrupted offline traffic, with demand once again emphasized to online occasion. In this regard, we leveraged on our strength of well-established Omni-operation across diverse occasions to seize business potential and opportunities. Despite the total revenue decreased by 15.1% year-on-year to RMB13,218.0 million, the sales contributed by online retail segment recorded a significant increase year-on-year, of which sales contributed by online private domain, which originated from social community operation, recorded the most substantial growth year-on-year. This fully demonstrated our advantage of diversified touch points upon Omnipresent and cross-occasions network, which provides us the agility to seamlessly cater to consumer need.

Meanwhile, as the largest sportswear retailer in the industry, we have dynamically addressed the market equilibrium despite more complex market conditions, and maintained a healthy and manageable inventory level with efficient turnover. As of 31 August 2022, inventory decreased by 16.6% as compared with 31 August 2021, and decreased by 4.2% as compared with 28 February 2022. The healthy inventory management enabled us with more flexibility to confront and mitigate the impact from external promotional market activities. During the period, attributed by prudent markdown control and integrated cooperation with our strategic brand partners, the gross profit margin increased by 1.1 percentage points to 45.6% year-on-year. Meanwhile, through disciplined expense control and continued execution of our directly-operated retail network optimization strategy based on “Select + Optimize”, we partially eased the direct impact to our expense ratios due to revenue decline. Profit attributable to equity holders of the Company decreased by 19.9% to RMB1,145.4 million year-on-year and profit margin attributable to equity holders of the Company slightly declined by 0.5 percentage points year-on-year to 8.7%. We successfully rode on our industry leading retail efficiency and resulted in strong cash generation as supported by efficient working capital management, amid challenging business environment. In view of the above, the Board has resolved to declare an interim dividend of RMB13.00 cents per ordinary share for the first half of the Financial Year ending 28 February 2023, representing a dividend payout rate of 70.4%, to consistently generate values for shareholders through excellent operations.

BUSINESS REVIEW

Prioritize Efficiency and Deepen Synergy to Navigate Diverse Challenges via Omni-operation with Refined Digital Capabilities

During the first half of the financial year, the abruptness and variability of the pandemic have brought force to constrain offline traffic constantly. Adhering to our principle to prioritize efficiency, and in order to cope with shifting consumption occasions and overall retail dynamics, we seized additional business opportunities for our scale aid on efficient Omni-operation, also underpinned by enhanced synergies internally from headquarter to regional branches and in-depth cooperation with external brand partners. Although overall revenue in the first half of the financial year declined year-on-year due to industry headwinds, sales contributed by retail online segment recorded a significant increase year-on-year, of which the sales from online private domain originated from social community operation recorded the most substantial growth, with its sales mix to total sales doubled on a year-on-year basis. We constantly refined and iterated the application of our digital tools both on the retail front and through consumer engagements, this empowered us to seamlessly cater to consumer needs across occasions on the store level, and enhance the efficiency of operational procedures as well as precise data analysis on the operation end.

Nevertheless, we applied efficiency evaluation of our physical store network on a dynamic basis to seize market trends, in addition to our diversified virtual exposures. During the period, we accelerated the optimization of directly-operated stores with the strategy of “Select + Optimize”, and strengthen their store-based Omni-operation capabilities. In view of market challenges brought by the pandemic, we adopted more prudent approach to evaluate store efficiency on on-going basis and accelerated the closure of low-productivity and loss-making stores accordingly.

As of 31 August 2022, we operated a network of 6,928 directly-operated stores. As compared with 28 February 2022, we recorded a net decrease of 767 stores with gross selling area decreasing by 5.1% half-on-half, and a net decrease of 857 stores with gross selling area decreasing by 0.7% year-on-year as compared with 31 August 2021. During this process, proactive assessment to prioritize efficiency was applied to navigate external dynamics with a target on productivity in order to optimize store network. This initiative has enabled us to ease the impact on operation expense ratios given revenue decline, while still able to participate and contribute to the long-term growth landscape of the industry.

In light of more changing consumer demand and the need for better consumption experience, more immersive shopping experience has gradually overtaken product display as the focus. Brick-and-mortar stores transform themselves from retail outlets to experience hubs that offer one-stop service and interconnect the online and offline journey. During the period, stores with Omni-operation capabilities were steadily launched or upgraded among major commercial areas in different regions with quality and high-standard as the core. Meanwhile, we piloted core functions such as browse and analysis for our channel system, which was built upon the immense information collection and procession including data related to cities and commercial areas etc. With the steady implementation and promotion of the large format store strategy, the large format store accounted for an increasing proportion while carried on its operational excellence. As of 31 August 2022, large format stores over 300 square meters accounted for 14.9%, representing an increase of 2.0 percentage points from 28 February 2022, and an increase of 4.1 percentage points from 31 August 2021. Meanwhile, large format store privileged as the intersection point between online and offline traffic to further recalibrate the traditional role of stores to further equip with Omni-operation capabilities. During the first half of the financial year ending 28 February 2023, for those stores equipped with WeChat mini programs, sales from private domain contributed to a mix of low-twenties of the total direct retail sales (before VAT) of these stores.

Numbers and percentages of our stores by size:

	2020		As at 28/29 February 2021		2022		As at 31 August 2022	
		%		%		%		%
Store size:								
150 sq.m or smaller	5,732	68.3%	5,192	64.8%	4,624	60.1%	3,938	56.8%
Between 150 and 300 sq.m	2,051	24.4%	2,064	25.8%	2,082	27.0%	1,960	28.3%
Larger than 300 sq.m	612	7.3%	750	9.4%	989	12.9%	1,030	14.9%
Total	<u>8,395</u>	<u>100.0%</u>	<u>8,006</u>	<u>100.0%</u>	<u>7,695</u>	<u>100.0%</u>	<u>6,928</u>	<u>100.0%</u>

Dedicated to Consumer Operations for Double Increase of User Scale and Loyalty

Despite external uncertainties, we consistently dedicate ourselves to the essential pursuit to engage with consumers seamlessly. We cater to their needs through Omnipresent engagement, social community interaction and consumer operation. In addition, we persistently optimize our operation of social media community and membership as well as the upgrade of member benefits, rights and services, empowered by digital tools. As such, we strengthened their awareness and recognition of Topsports through facilitating their lifestyle and demand for social activities.

During the period, the cumulative number of enrolled members and WeChat followers jointly expanded in spite of challenging external environment. The impact caused by volatile offline traffic as a result of recurrent pandemic outbreaks was offset by member acquisition from virtual settings together with traditional physical exposure. In terms of community operation, we refined the user acquisition target and optimized the corresponding procedures for the stores. As at 31 August 2022, our cumulative number of enrolled members reached 60.2 million, representing an increase of 28% year-on-year, and our cumulative WeChat followers exceeded 9 million, nearly doubled year-on-year.

In terms of precise user operation, we distinctly focused on seizing potential demand of our core members while achieving breakthrough on scale expansion, by carrying out various programs for differentiated and targeted operation methods based on member levels and upgrading a series of member products. By the end of August 2022, the contribution to total in-store retail sales (inclusive of VAT) by membership sales remained high, with more significant contribution from repeated purchases of existing members. Both the scale and sales mix contributed by our core members elevated, while they also revealed stronger spending potential and stickiness as compared with members in general. The average spending per user for core members is significantly higher than members in total and non-members as a whole. Along with the increased number of WeChat followers, the sales mix contributed by online private domain to total sales doubled on a year-on-year basis which effectively mitigated the constraint on offline traffic as a result of the pandemic outbreaks.

	As at			
	30 November 2021	28 February 2022	31 May 2022	31 August 2022
Cumulative number of our enrolled members	50.9	55.5	57.5	60.2
Percentage of total in-store retail sales value (inclusive of VAT) contributed by members for the quarter ended	95.6%	96.4%	95.3%	93.6%

Unit: Million

Further our Engagement along the Consumer Journey

We deeply value every conversation with our consumers. To extend our connection and companionship with them in a broader and deeper extent and encompass each segment along the consumer journey, we focus on communicating and interacting with them through our content media matrix. We have curated and published quality and popular contents to fans through our official WeChat account TOPSPORTS to unlock potential demand and follow trending topics, making product recommendations on platforms such as Xiaohongshu (小紅書) and Douyin (抖音), and incubating proprietary IP accounts. During the period, our official WeChat accounts have more than 28 million followers, with nearly 100 million views in total for our content published across all social media accounts. In addition, our Top eSports club has continuously succeeded in various competitions, which attracted a soaring traffic inflow, with the total number of Weibo followers of Top eSports Weibo exceeding 6 million, paving the way for commercialization.

OUTLOOK

Striving Forward with Innovation and Efficiency

Thus far, the pandemic still constantly affects retail consumption across regions. The evolving market dynamics present profound challenges for retailers in respect of their ability to think ahead, progress with agility and precision. Looking ahead to the second half of the financial year, amid the market uncertainties, we will continue to focus on upgrading our Omni-operation capability and strengthening our digitalization capability, deepening interactions with our consumers jointly with our brand partners, while observantly following industry trends. We will continue to forge ahead towards our goals with focus on the following measures and strategically respond to industry dynamics with efficiency as the first priority.

- Deepen brand partnerships and optimize our brand offerings
- Promote upgrades of stores network under the “Select + Optimize” strategy and advance store-based Omni-operations
- Deepen long-term digitalization with “Precision + Efficiency” strategy
- Focus on the dual-expansion of membership scale and enhanced loyalty by doubling down on consumer engagement and traffic operations
- Extend service offerings along segments of consumer journey to fully unlock of consumer lifetime value

FINANCIAL REVIEW

During the six months ended 31 August 2022, the Group recorded revenue of RMB13,218.0 million, a decrease of 15.1% compared with that of the six months ended 31 August 2021. The Group recorded operating profit of RMB1,580.5 million, a decrease of 23.3% compared with that of the six months ended 31 August 2021. The profit attributable to the Company's equity holders during the period under review amounted to RMB1,145.4 million, a decrease of 19.9% compared with that of the six months ended 31 August 2021.

REVENUE

The Group's revenue decreased by 15.1%, from RMB15,573.4 million for the six months ended 31 August 2021 to RMB13,218.0 million for the six months ended 31 August 2022. The decline was mainly due to the fluctuating impact of the enduring Omicron variant outbreaks to the market of consumption environment in general since the late half of March of 2022. The following table sets forth a breakdown of the revenue from sale of goods by brand categories, concessionaire fee income and e-Sports income for the periods indicated:

	Six months ended 31 August		2021		Decline rate
	2022		Revenue	% of total	
	Revenue	% of total	Revenue	% of total	
Principal brands*	11,544.0	87.3%	13,517.9	86.8%	(14.6%)
Other brands*	1,557.6	11.8%	1,903.4	12.2%	(18.2%)
Concessionaire fee income	91.1	0.7%	120.8	0.8%	(24.6%)
e-Sports income	25.3	0.2%	31.3	0.2%	(19.2%)
Total	13,218.0	100.0%	15,573.4	100.0%	(15.1%)

Unit: RMB million

* Principal brands include Nike and Adidas. Other brands include PUMA, Converse, VF Corporation's brands (namely Vans, The North Face and Timberland), ASICS, Onitsuka Tiger, Skechers and LI-NING. Principal brands and other brands are classified according to the Group's relative revenue.

The Group sells sportswear products sourced from international and domestic sports brands either directly to consumers through the retail operations or to the downstream retailers under the wholesale operations. The following table sets forth the revenue from sale of goods by sales channel, concessionaire fee income and e-Sports income for the periods indicated:

	Six months ended 31 August		2021		Decline rate
	2022		Revenue	% of total	
	Revenue	% of total	Revenue	% of total	
Retail operations	11,018.9	83.4%	12,702.3	81.6%	(13.3%)
Wholesales operations	2,082.7	15.7%	2,719.0	17.4%	(23.4%)
Concessionaire fee income	91.1	0.7%	120.8	0.8%	(24.6%)
e-Sports income	25.3	0.2%	31.3	0.2%	(19.2%)
Total	13,218.0	100.0%	15,573.4	100.0%	(15.1%)

Unit: RMB million

PROFITABILITY

The Group's operating profit decreased by 23.3% to RMB1,580.5 million for the six months ended 31 August 2022. The profit attributable to the Company's equity holders decreased by 19.9% to RMB1,145.4 million for the six months ended 31 August 2022.

	Six months ended 31 August		
	2022	2021	Decline rate
Revenue	13,218.0	15,573.4	(15.1%)
Cost of sales	(7,187.3)	(8,649.9)	(16.9%)
Gross profit	6,030.7	6,923.5	(12.9%)
Gross profit margin	45.6%	44.5%	

Unit: RMB million

Cost of sales decreased by 16.9% from RMB8,649.9 million for the six months ended 31 August 2021 to RMB7,187.3 million for the six months ended 31 August 2022. Gross profit of the Group decreased by 12.9% to RMB6,030.7 million for the six months ended 31 August 2022 from RMB6,923.5 million for the six months ended 31 August 2021.

During the period under review, the gross profit margin of the Group was 45.6%, increased by 1.1 percentage points, from 44.5% for the six months ended 31 August 2021. Increase in gross profit margin primarily resulted in disciplined markdown control, changing in sales structure, decreasing in wholesales proportion, as well as more integrated cooperation with the brand partners.

Selling and distribution expenses for the six months ended 31 August 2022 were RMB4,090.8 million (six months ended 31 August 2021: RMB4,542.5 million), accounting for 30.9% of the Group's revenue (six months ended 31 August 2021: 29.2%). The selling and distribution expenses primarily include concessionaire and lease expenses, depreciation of right-of-use assets in relation to the stores, sales personnel salaries and commissions, other depreciation and amortization charges, and other expenses which mainly include store operation expenses, property management fees, logistics expenses and online service fees.

General and administrative expenses for the six months ended 31 August 2022 were RMB574.3 million (six months ended 31 August 2021: RMB634.6 million), accounting for 4.3% of the Group's revenue (six months ended 31 August 2021: 4.1%). The general and administrative expenses primarily include lease expenses in relation to office premises, management and administrative personnel salaries, depreciation and amortization charges, other tax expenses and other expenses. Decrease in general and administrative expenses primarily due to decrease in staff costs, travelling expenses and other tax expenses during the period under review.

Increase in selling and distribution expenses and general and administrative expenses as a percentage of the Group's revenue was mainly due to the adverse impact of the uneven and enduring Omicron variant outbreaks on sales which increased operating deleverage during the period under review.

Finance income decreased from RMB73.1 million for the six months ended 31 August 2021 to RMB48.6 million for the six months ended 31 August 2022. Decrease in finance income was mainly due to the absence of exchange gains during the period under review, partly offset by increase in interest income, as the average balance of bank deposits for the six months ended 31 August 2022 was higher than the same period of last year.

Finance costs slightly increased from RMB110.8 million for the six months ended 31 August 2021 to RMB111.3 million for the six months ended 31 August 2022, primarily as a result of more interest expenses of short-term borrowings incurred, as the average balance of short-term borrowings for the six months ended 31 August 2022 was higher than the same period of last year, partly offset by decrease in interest expenses on lease liabilities.

Income tax expense for the six months ended 31 August 2022 amounted to RMB372.4 million (six months ended 31 August 2021: RMB591.2 million). The effective income tax rate decreased by 4.7 percentage points to 24.5% for the six months ended 31 August 2022 from 29.2% for the six months ended 31 August 2021 was attributable to more subsidiaries in the PRC entitled higher profit tax incentives during the period under review. The statutory income tax rate for the Group in Mainland China is generally 25% and the Company provided withholding tax provision on the profits retained by the subsidiaries in the PRC.

OTHER INCOME

Other income for the six months ended 31 August 2022 amounted to RMB213.4 million (six months ended 31 August 2021: RMB310.3 million) mainly consists of government incentives.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of expenditures for property, plant and equipment and intangible assets. During the six months ended 31 August 2022, the total capital expenditure was RMB157.3 million (six months ended 31 August 2021: RMB261.1 million).

BASIC EARNINGS PER SHARE

Basic earnings per share for the six months ended 31 August 2022 decreased by 19.9% to RMB18.47 cents from RMB23.07 cents for the six months ended 31 August 2021.

Basic earnings per share is calculated by dividing profit attributable to the Company's equity holders of RMB1,145.4 million for the six months ended 31 August 2022 (six months ended 31 August 2021: RMB1,430.8 million) by the weighted average number of ordinary shares of the Company in issue of 6,201,222,024 shares (six months ended 31 August 2021: 6,201,222,024 shares).

		Six months ended 31 August	
		2022	2021
Profit for the period attributable to the Company's equity holders	RMB million	<u><u>1,145.4</u></u>	<u><u>1,430.8</u></u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	thousand of shares	<u><u>6,201,222</u></u>	<u><u>6,201,222</u></u>
Basic earnings per share	RMB cents	<u><u>18.47</u></u>	<u><u>23.07</u></u>

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, net cash generated from operations decreased by RMB1,191.7 million to RMB2,133.7 million for the six months ended 31 August 2022 from RMB3,325.4 million for the six months ended 31 August 2021.

Net cash used in investing activities for the six months ended 31 August 2022 was RMB132.9 million (six months ended 31 August 2021: Net cash used in RMB297.1 million). During the period under review, the Group invested RMB143.1 million on payments for purchases of property, plant and equipment and intangible assets, placement of other bank deposits of RMB551.0 million and payment for convertible loan investment of RMB20.0 million, offset by proceeds from disposals of property, plant and equipment of RMB0.3 million, withdrawal of other bank deposits of RMB551.0 million and interest received of RMB29.9 million.

During the period under review, net cash used in financing activities was RMB1,560.0 million (six months ended 31 August 2021: net cash used in RMB2,435.4 million), mainly due to the repayments of bank borrowings of RMB518.2 million, placement for short-term pledged bank deposits of RMB578.4 million, payments for lease liabilities (including interest) of RMB615.2 million and payments of the 2021/22 final dividend of RMB434.1 million and the 2021/22 special dividend of RMB1,426.3 million by the Group during the period, partly offset by proceeds from bank borrowings of RMB2,028.0 million.

As at 31 August 2022, the Group held bank balances and cash and short-term pledged bank deposits totaling RMB3,255.0 million, after netting off the short-term borrowings of RMB2,028.0 million, it was in a net cash position of RMB1,227.0 million. As at 28 February 2022, the Group held bank balances and cash totaling RMB1,752.6 million, after netting off the short-term borrowings of RMB518.2 million, it was in a net cash position of RMB1,234.4 million.

GEARING RATIO

As at 31 August 2022, the gearing ratio (net debt (short-term borrowings less bank deposits, balances and cash) divided by total capital (total equity plus net debt)) of the Group had a net cash position (28 February 2022: net cash position) and the aggregate balances of long-term pledged bank deposits, short-term pledged bank deposits and bank balances and cash exceeded the total balance of short-term borrowings by RMB1,227.0 million (28 February 2022: RMB2,234.4 million).

PLEDGE OF ASSETS

As at 31 August 2022, except for the short-term pledged bank deposits of RMB1,578.4 million, no assets were pledged as security for banking facilities available to the Group.

HUMAN RESOURCES

As at 31 August 2022, the Group had a total of 32,745 employees (28 February 2022: 40,913 employees). For the six months ended 31 August 2022, total staff costs were RMB1,488.0 million (six months ended 31 August 2021: RMB1,618.4 million), accounting for 11.3% (six months ended 31 August 2021: 10.4%) of the revenue of the Group. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

GENERAL INFORMATION

INTERIM DIVIDEND

The board of directors of the Company (the “Board”) has resolved to declare an interim dividend of RMB13.00 cents per ordinary share (the “Interim Dividend”), totaling RMB806.2 million for the six months ended 31 August 2022.

The Interim Dividend will be paid on or about Thursday, 15 December 2022 to shareholders whose names appear on the register of members of the Company on Thursday, 1 December 2022.

The actual exchange rate for the purpose of Interim Dividend payment in Hong Kong dollars is the offshore exchange rate (Buying TT) of RMB against Hong Kong dollars (RMB1.00 = HK\$1.0598) as quoted by the Hong Kong Association of Banks on Tuesday, 25 October 2022, being the date on which the Interim Dividend is declared by the Board. Accordingly, the amount of the Interim Dividend is HK\$13.78 cents per ordinary share.

The Board is of the view that the Company will be able to pay its debts as they fall due in its ordinary course of business immediately following the payment of the Interim Dividend and the declaration of the Interim Dividend will not have an adverse impact on the business of the Company.

CLOSURE OF REGISTER OF MEMBERS

The Interim Dividend will be payable on or about Thursday, 15 December 2022 to the shareholders whose names appear on the register of members of the Company on Thursday, 1 December 2022. For the purpose of ascertaining shareholder’s eligibility for the Interim Dividend, the register of members of the Company will be closed from Tuesday, 29 November 2022 to Thursday, 1 December 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, for registration by no later than 4:30 p.m. on Monday, 28 November 2022.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

CORPORATE GOVERNANCE

The Company’s corporate governance practices are based on the principles and code provisions of the Corporate Governance Code, as set out in Appendix 14 to the Listing Rules (the “CG Code”), and the Company has adopted the CG Code as its own corporate governance code.

During the six months ended 31 August 2022, the Company has complied with all applicable code provisions as set out in the CG Code.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct for Directors’ securities transactions. After having made specific enquiries, each Director has confirmed that he/she has complied with the requirements of the Model Code for the period from 1 March 2022 to 31 August 2022.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, review the financial information of the Group and consider issues in relation to the external auditors and their appointment.

The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. LAM Yiu Kin, Mr. HUA Bin and Mr. HUANG Victor. The chairman of the Audit Committee is Mr. LAM Yiu Kin, who has a professional qualification in accountancy.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters, including a review of the interim financial information for the six months ended 31 August 2022.

REMUNERATION COMMITTEE

The Remuneration Committee has three members comprising Mr. HUA Bin, Mr. YU Wu and Mr. LAM Yiu Kin, two of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. HUA Bin.

The primary responsibilities of the Remuneration Committee include (but without limitation):

- making recommendations to the Board on the remuneration policy and structure for Directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;
- determining the terms of specific remuneration package of the Directors and senior management; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

The emoluments of Directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time commitment in the Group’s affairs and performance of each Director as well as salaries paid by comparable companies and the prevailing market conditions.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

NOMINATION COMMITTEE

The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as the directors of the Company, oversee the process for evaluating the performance of the Board, review the structure, size and composition of the Board and assess the independence of the Independent Non-executive Directors. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve the Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee has three members comprising Mr. HUANG Victor, Mr. YU Wu and Mr. LAM Yiu Kin, two of whom are Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. HUANG Victor.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

By order of the Board
Topsports International Holdings Limited
YU Wu
CEO & Executive Director

Hong Kong, 25 October 2022

As at the date of this announcement, the Board of directors of the Company comprises Mr. YU Wu and Mr. LEUNG Kam Kwan as executive directors and Mr. SHENG Baijiao, Mr. SHENG Fang, Ms. YUNG Josephine Yuen Ching and Ms. HU Xiaoling as non-executive directors, Mr. LAM Yiu Kin, Mr. HUA Bin and Mr. HUANG Victor as independent non-executive directors.

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.topsports.com.cn), respectively. The interim report of the Company will be dispatched to the Shareholders in due course, and will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company, respectively.