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# **LI NING COMPANY LIMITED**

**李寧有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2331)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022**

### **FINANCIAL HIGHLIGHTS**

- The impact of recurring waves of COVID-19 pandemic and significant increase in raw material prices led to certain challenges to operating environment during the year:
  - Revenue increased by 14.3% to RMB25,803 million
  - Though the gross profit margin lowered by 4.6 percentage points to 48.4%, the net profit margin remained at a healthy level of 15.7%, and the net profit attributable to equity holders slightly increased to RMB4,064 million
  - Achieved net operating cash inflow of RMB3,914 million
- Working capital remained at a healthy level:
  - The percentage of gross average working capital to revenue was 6.8%
  - Cash conversion cycle was 30 days, increased by 10 days year-on-year (among which 5 days were affected by the trade payables turnover days)
- The Board has recommended payment of 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 (2021: RMB45.97 cents).

### **OPERATIONAL HIGHLIGHTS**

- Operation improvement mitigated certain extent of the negative impact from the COVID-19.
- The retail sell-through for the overall platform increased by mid-single-digit, including online and offline channels.
- Channel inventory increased by mid-twenties, mainly due to business expansion and the layout planning made in advance to seize opportunities for continuous growth of business scale. The inventory turnover and ageing structure remained at a sound level.
- Offline channel new product sell-through increased by mid-single-digit.

## ANNUAL RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022, together with comparative figures of 2021, as follows:

### CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2022	2021
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		3,234,563	1,625,887
Right-of-use assets		2,022,229	1,332,765
Investment properties		1,802,227	1,850,045
Land use rights		158,781	162,579
Intangible assets		217,236	187,680
Deferred income tax assets		693,402	707,575
Other assets		287,707	775,531
Investments accounted for using the equity method		1,369,403	1,267,071
Investments measured at fair value through profit or loss		174,597	169,671
Other receivables		268,183	188,833
Long-term bank deposits		11,023,296	3,335,325
<b>Total non-current assets</b>		<b>21,251,624</b>	<b>11,602,962</b>
<b>Current assets</b>			
Inventories	4	2,428,040	1,772,803
Other assets – current portion		831,578	770,628
Trade receivables	5	1,020,346	902,857
Other receivables – current portion		88,419	78,744
Restricted bank deposits		970	1,061
Short-term bank deposits		643,324	400,862
Cash and cash equivalents		7,382,218	14,744,899
<b>Total current assets</b>		<b>12,394,895</b>	<b>18,671,854</b>
<b>Total assets</b>		<b>33,646,519</b>	<b>30,274,816</b>

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2022</b>	2021
		<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		240,320	238,759
Share premium		11,580,718	12,637,277
Shares held for Restricted Share Award Scheme		(180,839)	(37,840)
Other reserves		1,792,412	1,241,767
Retained earnings		<u>10,896,819</u>	<u>7,021,583</u>
		<b>24,329,430</b>	21,101,546
<b>Non-controlling interests in equity</b>		<u>2,498</u>	<u>2,561</u>
<b>Total equity</b>		<u>24,331,928</u>	<u>21,104,107</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable		15,531	20,996
Lease liabilities		1,473,905	956,475
Deferred income tax liabilities		518,731	426,873
Deferred income		<u>65,591</u>	<u>62,517</u>
<b>Total non-current liabilities</b>		<u>2,073,758</u>	<u>1,466,861</u>
<b>Current liabilities</b>			
Trade payables	6	1,584,424	1,599,282
Contract liabilities	3	252,090	345,835
Lease liabilities – current portion		667,762	366,968
Other payables and accruals		3,648,720	4,024,662
License fees payable – current portion		50,540	50,106
Current income tax liabilities		1,037,297	1,307,776
Derivative financial instruments – current portion		<u>–</u>	<u>9,219</u>
<b>Total current liabilities</b>		<u>7,240,833</u>	<u>7,703,848</u>
<b>Total liabilities</b>		<u>9,314,591</u>	<u>9,170,709</u>
<b>Total equity and liabilities</b>		<u><u>33,646,519</u></u>	<u><u>30,274,816</u></u>

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	3	25,803,383	22,572,281
Cost of sales	7	<u>(13,318,590)</u>	<u>(10,603,183)</u>
<b>Gross profit</b>		<b>12,484,793</b>	11,969,098
Selling and distribution expenses	7	(7,314,303)	(6,138,077)
Administrative expenses	7	(1,113,218)	(1,110,675)
Reversal of expected credit loss allowance for financial assets - net		24,321	15,682
Other income and other gains – net	8	<u>805,165</u>	<u>400,348</u>
<b>Operating profit</b>		<b>4,886,758</b>	5,136,376
Finance income	9	447,748	145,097
Finance expenses	9	<u>(120,561)</u>	<u>(112,458)</u>
Finance income – net	9	327,187	32,639
Share of profit of investments accounted for using the equity method		<u>201,155</u>	<u>159,222</u>
<b>Profit before income tax</b>		<b>5,415,100</b>	5,328,237
Income tax expense	10	<u>(1,351,329)</u>	<u>(1,317,349)</u>
<b>Profit for the year</b>		<b>4,063,771</b>	4,010,888
<b>Profit is attributable to:</b>			
Equity holders of the Company		4,063,834	4,010,881
Non-controlling interests		<u>(63)</u>	<u>7</u>
		<u><b>4,063,771</b></u>	<u><b>4,010,888</b></u>
<b>Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents per share)</b>			
Basic earnings per share	11	<u>155.38</u>	<u>160.10</u>
Diluted earnings per share	11	<u>154.34</u>	<u>157.97</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>4,063,771</b>	4,010,888
<b>Other comprehensive loss:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(8,383)</u>	<u>(2,562)</u>
<b>Total comprehensive income for the year</b>	<b><u>4,055,388</u></b>	<b><u>4,008,326</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	<b>4,055,451</b>	4,008,319
Non-controlling interests	<u>(63)</u>	<u>7</u>
<b>Total comprehensive income for the year</b>	<b><u>4,055,388</u></b>	<b><u>4,008,326</u></b>

Notes:

## 1. General information

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

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

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

These consolidated financial results are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial results have been approved for issue by the Board on 16 March 2023.

## 2. Summary of significant accounting policies

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

### (a) Compliance with IFRS and HKCO

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

### (b) Historical cost convention

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

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

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts– Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018-2020	
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>

The Group also elected to adopt the following amendments early:

Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
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The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards or annual improvements, except for the Amendments to IAS 12. Upon adoption of the Amendments to IAS 12, the Group recognises deferred tax assets and deferred tax liabilities for the temporary differences associated with right-of-use assets and lease liabilities at the beginning of the earliest comparative period (1 January 2021). The early adoption of this amendment did not have any material impact on the financial results.

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published but are not mandatory for 31 December 2022 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 3. Segment information and revenue

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

The Group is principally engaged in a single line of business of sporting goods. 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.

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

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

Revenue breakdown by product category:

	Year ended 31 December	
	2022	2021
	RMB’000	RMB’000
Footwear	13,478,630	9,505,994
Apparel	10,708,594	11,823,798
Equipment and accessories	1,616,159	1,242,489
<b>Total</b>	<b>25,803,383</b>	<b>22,572,281</b>

Revenue breakdown by sales channel:

	Year ended 31 December	
	2022	2021
	RMB’000	RMB’000
PRC market		
Sales to franchised distributors	12,551,862	10,852,750
Sales from direct operation	5,330,434	5,010,408
Sales from e-commerce channel	7,465,297	6,412,920
Other regions	455,790	296,203
<b>Total</b>	<b>25,803,383</b>	<b>22,572,281</b>

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

The Group has a large number of customers. For the years ended 31 December 2022 and 2021, no revenue derived from transactions with a single external customer represented 10% or more of the Group’s total revenue.

(b) *Liabilities related to contracts with customers*

	2022 RMB'000	2021 RMB'000
Contract liabilities – advances from customers	166,123	258,265
Contract liabilities – customer loyalty programme	<u>85,967</u>	<u>87,570</u>
<b>Total</b>	<b><u>252,090</u></b>	<b><u>345,835</u></b>

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

*Significant change in contract liabilities*

The decrease in contract liabilities in 2022 was mainly due to the decrease in advances received from customers in relation to the sales orders of sporting goods at the end of the reporting period.

*Revenue recognised in relation to contract liabilities*

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Contract liabilities – advances from customers	258,265	256,119
Contract liabilities – customer loyalty programme	<u>87,570</u>	<u>30,015</u>
<b>Total</b>	<b><u>345,835</u></b>	<b><u>286,134</u></b>

4. **Inventories**

	2022 RMB'000	2021 RMB'000
Raw materials	19,302	16,374
Work in progress	31,783	17,493
Finished goods	<u>2,497,486</u>	<u>1,832,615</u>
	2,548,571	1,866,482
Less: provision for write-down of inventories to net realisable value	<u>(120,531)</u>	<u>(93,679)</u>
	<b><u>2,428,040</u></b>	<b><u>1,772,803</u></b>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB12,979,293,000 for the year ended 31 December 2022 (2021: RMB10,340,415,000), which included inventory provision of RMB26,852,000 (2021: reversal of inventory provision of RMB19,454,000).



## 5. Trade receivables

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Accounts receivable	1,172,857	1,111,138
Less: expected credit loss allowance for trade receivables	<u>(152,511)</u>	<u>(208,281)</u>
	<u><b>1,020,346</b></u>	<u><b>902,857</b></u>

Trade receivables are mainly denominated in RMB.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0 – 30 days	579,558	681,627
31 – 60 days	305,891	206,901
61 – 90 days	99,031	35,130
91 – 180 days	74,865	21,697
Over 180 days	<u>113,512</u>	<u>165,783</u>
	<u><b>1,172,857</b></u>	<u><b>1,111,138</b></u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
As at 1 January	208,281	280,437
Reversal of expected credit loss allowance for trade receivables	(23,114)	(19,900)
Trade receivables written off during the year as uncollectible	(33,816)	(52,087)
Effect of change in exchange rate	<u>1,160</u>	<u>(169)</u>
<b>As at 31 December</b>	<u><b>152,511</b></u>	<u><b>208,281</b></u>

## 6. Trade payables

Trade payables are mainly denominated in RMB.

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0-30 days	1,224,526	1,557,849
31-60 days	309,672	23,275
61-90 days	1,758	5,769
91-180 days	9,699	1,065
181-365 days	15,622	7,094
Over 365 days	<u>23,147</u>	<u>4,230</u>
	<u><b>1,584,424</b></u>	<u><b>1,599,282</b></u>

## 7. Expenses by nature

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of inventories recognised as expenses and included in cost of sales	12,979,293	10,340,415
Depreciation on property, plant and equipment ( <i>Note a</i> )	732,178	589,373
Amortisation of land use rights and intangible assets	49,343	40,868
Depreciation on right-of-use assets	611,447	461,172
Depreciation on investment properties not under operating leases	–	2,024
Advertising and marketing expenses	2,279,152	1,779,263
Commission and trade fair related expenses	723,209	618,590
Staff costs, including directors' emoluments ( <i>Note a</i> )	1,989,282	1,811,973
Short-term lease rentals and variable lease payments not included in lease liabilities, and rental related expenses	834,067	694,691
Research and product development expenses ( <i>Note a</i> )	534,156	413,949
Transportation and logistics expenses	898,173	858,783
Auditor's remuneration		
– Audit services	6,220	6,500
– Non-audit services	1,345	911
Management consulting expenses	110,366	113,362

*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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government grants ( <i>Note</i> )	461,727	231,619
License fees income	131,949	28,855
Fair value gains on wealth management products measured at fair value through profit or loss	140,550	77,902
Rental income	77,935	65,833
Depreciation on investment properties under operating leases	(60,826)	(47,025)
Fair value gains on investments measured at fair value through profit or loss	53,830	42,468
Fair value gains on derivative financial instruments measured at fair value through profit or loss	–	696
	<u>805,165</u>	<u>400,348</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 year ended 31 December 2022, the entitlement of an aggregate amount of RMB436,751,000 (2021: RMB206,495,000) was unconditional and at the discretion of the relevant authorities, while the remaining amount of RMB24,976,000 (2021: RMB25,124,000) was 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

	2022 RMB'000	2021 RMB'000
<b>Finance income</b>		
Interest income on bank balances and deposits	353,987	145,097
Net foreign currency exchange gain	93,761	–
	<u>447,748</u>	<u>145,097</u>
<b>Finance expenses</b>		
Amortisation of discount – license fees payable	(2,363)	(2,601)
Amortisation of discount – lease liabilities	(99,035)	(64,449)
Net foreign currency exchange loss	–	(30,462)
Borrowing interests	(3,391)	–
Others	(15,772)	(14,946)
	<u>(120,561)</u>	<u>(112,458)</u>
<b>Finance income – net</b>	<u><u>327,187</u></u>	<u><u>32,639</u></u>

## 10. Income tax expense

	2022 RMB'000	2021 RMB'000
Current income tax		
– Corporate income tax (b)	1,234,410	1,459,094
– Withholding income tax on dividends from subsidiaries in Mainland China (c)	10,888	2,888
	<u>1,245,298</u>	<u>1,461,982</u>
Deferred income tax	<u>106,031</u>	<u>(144,633)</u>
Income tax expense	<u><u>1,351,329</u></u>	<u><u>1,317,349</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 year ended 31 December 2022, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (2021: 25%) on the assessable income of each of the group companies, except for one of the Group's subsidiaries incorporated in Guangxi Zhuang Autonomous Region which is subject to preferential tax rate of 9% (2021: nil). Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2021: 16.5%).
- (c) This mainly arose from the dividends due by the Company's subsidiaries in Mainland China to other group companies in Hong Kong during the years ended 31 December 2022 and 2021, which are subject to withholding tax at the rate of 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 year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of offer securities which included the issuance of both ordinary shares and convertible securities. The below market subscription price of these two events had effectively resulted in 249,000 ordinary shares (31 December 2021: 270,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of convertible securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2021.

	2022	2021
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>4,063,834</u>	<u>4,010,881</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>2,615,354</u>	<u>2,505,199</u>
Basic earnings per share ( <i>RMB cents</i> )	<u>155.38</u>	<u>160.10</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 year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2022	2021
Profit attributable to equity holders of the Company, used to determine diluted earnings per share ( <i>RMB'000</i> )	<u>4,063,834</u>	<u>4,010,881</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> )	2,615,354	2,505,199
Adjustment for the restricted shares ( <i>in thousands</i> )	5,545	9,667
Adjustment for the share option schemes ( <i>in thousands</i> )	<u>12,181</u>	<u>24,090</u>
Deemed weighted average number of shares for diluted earnings per share ( <i>in thousands</i> )	<u>2,633,080</u>	<u>2,538,956</u>
Diluted earnings per share ( <i>RMB cents</i> )	<u>154.34</u>	<u>157.97</u>

## 12. Dividends

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Proposed final dividend of RMB46.27 cents (2021: RMB45.97 cents) per ordinary share	<u><b>1,219,150</b></u>	<u>1,203,264</u>

The total dividends paid during the year ended 31 December 2022 amounted to RMB1,194,720,000 or RMB45.97 cents per share (2021: RMB515,202,000 or RMB20.46 cents per share) which represented the final dividends for the year ended 31 December 2021.

On 16 March 2023, the Board proposed a final dividend out of the share premium 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 is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 14 June 2023. The proposed dividend is not reflected as a dividend payable in the financial results, but will be reflected as an appropriation of share premium in the year ended 31 December 2023.

## FINAL DIVIDEND

The Board has recommended the payment of 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 (2021: RMB45.97 cents). The proposed dividend payment is subject to approval by the shareholders of the Company at the forthcoming annual general meeting (“AGM”) to be held on 14 June 2023 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People’s Bank of China on 14 June 2023. Such dividend will not be subject to any withholding tax. Upon shareholders’ approval, the proposed final dividend will be paid:

- (i) on 30 June 2023 to ordinary shareholders whose names shall appear on the register of members of the Company on 21 June 2023;
- (ii) on 30 June 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 21 June 2023; and
- (iii) on 5 July 2023 (i.e. the third business day after 30 June 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 21 June 2023.

For the avoidance of doubt, any convertible securities subject to a conversion notice completed, executed and deposited on or before the final dividend record date (being 21 June 2023) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the convertible securities please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The Company did not declare interim dividend for the six months ended 30 June 2022.

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

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 14 June 2023 and shareholders and holders of convertible securities of the Company qualifying for the proposed final dividend to be approved at the AGM, the register of members and register of holders of convertible securities of the Company will be closed as set out below:

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

Latest time to lodge transfer documents	4:30 p.m. on 8 June 2023 (Thursday)
Period of closure of register of members	9 June 2023 (Friday) to 14 June 2023 (Wednesday) (both days inclusive)
Record date	14 June 2023 (Wednesday)
AGM date	14 June 2023 (Wednesday)

In order to qualify for attending and voting at the AGM, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 8 June 2023.

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

Latest time to lodge transfer documents	4:30 p.m. on 19 June 2023 (Monday)
Period of closure of register of members and register of holders of convertible securities	20 June 2023 (Tuesday) to 21 June 2023 (Wednesday) (both days inclusive)
Final dividend record date	21 June 2023 (Wednesday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 19 June 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 year ended 31 December 2022 are set out below:

	Year ended 31 December		Change
	2022	2021	(%)
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	<b>25,803,383</b>	22,572,281	<b>14.3</b>
Gross profit	<b>12,484,793</b>	11,969,098	<b>4.3</b>
Operating profit	<b>4,886,758</b>	5,136,376	<b>(4.9)</b>
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 2)	<b>6,541,707</b>	6,436,060	<b>1.6</b>
Profit attributable to equity holders (Note 3)	<b>4,063,834</b>	4,010,881	<b>1.3</b>
Basic earnings per share (RMB cents) (Note 4)	<b>155.38</b>	160.10	<b>(2.9)</b>

### Key financial ratios

#### *Profitability ratios*

Gross profit margin (%)	<b>48.4</b>	53.0	<b>(4.6)</b>
Operating profit margin (%)	<b>18.9</b>	22.8	<b>(3.9)</b>
Effective tax rate (%)	<b>25.0</b>	24.7	<b>0.3</b>
Margin of profit attributable to equity holders (%)	<b>15.7</b>	17.8	<b>(2.1)</b>
Return on equity attributable to equity holders (%) (Note 5)	<b>17.9</b>	26.9	<b>(9.0)</b>

#### *Expenses to revenue ratios*

Staff costs (%)	<b>7.7</b>	8.0	<b>(0.3)</b>
Advertising and marketing expenses (%)	<b>8.8</b>	7.9	<b>0.9</b>
Research and product development expenses (%)	<b>2.1</b>	1.8	<b>0.3</b>

<b>31 December</b>	31 December
<b>2022</b>	2021

### Balance sheet items

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

Total assets (Note 6)	<b>33,646,519</b>	30,274,816
Capital and reserves attributable to equity holders (Note 7)	<b>24,329,430</b>	21,101,546

### Key financial ratios

#### *Asset efficiency*

Average inventory turnover (days) (Note 8)	<b>58</b>	54
Average trade receivables turnover (days) (Note 9)	<b>14</b>	13
Average trade payables turnover (days) (Note 10)	<b>42</b>	47

#### *Asset ratios*

Debt-to-equity ratio (%) (Note 11)	<b>38.3</b>	43.5
Net asset value per share (RMB cents) (Note 12)	<b>926.23</b>	807.85



Notes:

1. Including revenue for the period from 1 January to 30 September 2022: RMB18,943,193,000.
  2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the year, excluding the sum of income tax expense, finance income – net, depreciation on property, plant and equipment, depreciation on investment properties under operating leases, depreciation on investment properties not under operating leases, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
  3. Including profit attributable to equity holders for the period from 1 January to 30 September 2022: RMB3,209,757,000.
  4. Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.
  5. The calculation of return on equity attributable to equity holders is based on the profit attributable to equity holders of the Company for the year, divided by the average of opening and closing balances of capital and reserves attributable to equity holders of the Company of the year.
  6. Total assets as at 30 September 2022: RMB34,197,824,000.
  7. Capital and reserves attributable to equity holders as at 30 September 2022: RMB23,278,850,000.
  8. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by the total number of days in the year.
  9. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by the total number of days in the year.
  10. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by the total number of days in the year.
  11. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
  12. 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 year.
- \* *The aforesaid indicators provided by the Group may not necessarily be the same in terms of similar calculation methods as those provided by other issuers.*
- \*\* *The Group adopted the aforesaid non-GAAP financial indicators such as EBITDA, margin of profit attributable to equity holders, return on equity attributable to equity holders, expenses (staff costs/advertising and marketing expenses/research and product development expenses) to revenue ratio, average inventory/trade receivables/trade payables turnover days, debt-to-equity ratio and net asset value per share because comparable companies in the industry in which the Group operates use the aforesaid common indicators as a supplementary measurement for results of operation, which are also widely used by investors to measure the results of operation of the comparable companies.*

## Revenue

The Group's revenue for the year ended 31 December 2022 amounted to RMB25,803,383,000 (2021: RMB22,572,281,000), representing an increase of 14.3% as compared to that of 2021. In the face of the repeated yet sporadic outbreak of domestic pandemic during the year, local governments of many regions put in place lockdown and pandemic control measures at different periods of time, which weakened the immediate consumption power of consumers. Maintaining its focus on the needs of the end-consumers, the Group sought for world-class professional sports technology to enhance the competitiveness of its products and brand. Despite a lower growth rate as compared with the previous year, revenue growth remained steady: (1) for direct operation channel, as affected by the closure of directly-operated stores, which are mainly located in urban areas, during the pandemic, sell-through of stores declined and the pace of revenue growth slowed down with a year-on-year growth rate of 6.4%. The Group continued to strengthen the management of retail channels by stepping up its effort in developing big stores with high efficiency and consolidating low-efficiency stores during the year. Retail stores were developed as a space for direct communication with consumers and providing in-depth sports products experiences. The Group strived to elevate the sports experience, product experience and shopping experience of consumers and enhance its brand influence, with a view to addressing the increasing demand of consumers for product quality, functional features and fashionable style; (2) the local restrictive policies in the post-pandemic era also impacted the e-commerce channel. Revenue growth was challenged by the slowdown of logistics. During the year, the Group placed more emphasis on efficient and precise advertisement placement and channel promotion, and adequately improved both the online and offline membership systems, contributing to a growth in revenue by 16.4%; and (3) revenue from sales to franchised distributors grew by 15.7%, which was underpinned by the strengthened business integration and channel management of the franchised distributors. Following the adjustment to the pandemic control policies, the development prospect of the sports products market will be promising. The Group will further strengthen the cooperation with franchised distributors so as to facilitate the recovery of sell-through as soon as possible.

### Revenue breakdown by product category

	Year ended 31 December				Revenue Change (%)
	2022		2021		
	RMB'000	% of total revenue	RMB'000	% of total revenue	
Footwear	13,478,630	52.2	9,505,994	42.1	41.8
Apparel	10,708,594	41.5	11,823,798	52.4	(9.4)
Equipment and accessories	1,616,159	6.3	1,242,489	5.5	30.1
<b>Total</b>	<b>25,803,383</b>	<b>100.0</b>	<b>22,572,281</b>	<b>100.0</b>	<b>14.3</b>

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

	Year ended 31 December		Change (%)
	2022 % of revenue	2021 % of revenue	
PRC market			
Sales to franchised distributors	48.5	48.1	0.4
Sales from direct operation	20.7	22.2	(1.5)
Sales from e-commerce channel	29.0	28.4	0.6
International markets	1.8	1.3	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

## Revenue breakdown by geographical location

	Note	Year ended 31 December				Revenue Change (%)
		2022		2021		
		RMB'000	% of revenue	RMB'000	% of revenue	
PRC market						
Northern region	2	11,987,993	46.4	10,939,495	48.5	9.6
Southern region	3	13,359,600	51.8	11,336,583	50.2	17.8
International markets		455,790	1.8	296,203	1.3	53.9
<b>Total</b>		<b>25,803,383</b>	<b>100.0</b>	<b>22,572,281</b>	<b>100.0</b>	<b>14.3</b>

### Notes:

1. In 2021, in order to enhance operating efficiency, the Group restructured and adjusted its sales system and related organization structure to combine the original Southern region and South China region into the Southern region.
2. The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia, Xinjiang and Qinghai.
3. The Southern region includes provinces, municipalities, autonomous regions and 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 year ended 31 December 2022, the overall cost of sales of the Group amounted to RMB13,318,590,000 (2021: RMB10,603,183,000), and the overall gross profit margin was 48.4% (2021: 53.0%), dropped by 4.6 percentage points as compared with the previous year. During the year, in view of the prominent trend of weak consumer demand in the market due to the impact of the pandemic, the Group increased the discount at retail stores and online channel. With the upgrade of domestic supply chain and industries, the raw material prices and labor costs have also risen, resulting in the increase of purchase costs. Adopting a prudent inventory management policy, the Group not only actively destocked inventories, but also optimized the inventory ageing structure and boosted the reserve of new products to meet the post-pandemic market growth and sell-through demand.

### Selling and Distribution Expenses

For the year ended 31 December 2022, the Group's overall selling and distribution expenses amounted to RMB7,314,303,000 (2021: RMB6,138,077,000), representing a year-on-year increase of 19.2%; the selling and distribution expenses accounted for 28.3% (2021: 27.2%) of the Group's total revenue with a year-on-year increase of 1.1 percentage points.

During the year, along with the increase in revenue, rental, license fees, wages and bonuses of direct sales staff, investment in advertising and marketing, commission for the e-commerce channel and logistics expenses that related to revenue recorded increases to varying degrees, and thus higher overall selling and distribution expenses incurred as compared to last year. As certain fixed fees, including depreciation on store fittings and fixed rental charges for retail stores, may not be adjusted in line with the sluggish revenue growth, the percentage of selling and distribution expenses to revenue also increased.

### *Administrative Expenses*

For the year ended 31 December 2022, the Group's overall administrative expenses amounted to RMB1,113,218,000 (2021: RMB1,110,675,000), accounting for 4.3% (2021: 4.9%) of the Group's total revenue with a year-on-year decrease of 0.6 percentage points. Administrative expenses mainly comprised staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses. During the year, the Group continued to strengthen the effective management of daily expenses and comprehensively enhance the efficiency of operation management, with a view to lowering the percentage of administrative expenses to revenue while maintaining the growth in revenue.

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

For the year ended 31 December 2022, the Group's share of profit of investments accounted for using the equity method amounted to RMB201,155,000 (2021: RMB159,222,000).

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

For the year ended 31 December 2022, the Group's EBITDA amounted to RMB6,541,707,000 (2021: RMB6,436,060,000), representing a year-on-year increase of 1.6%.

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

	2022 RMB'000	2021 RMB'000
<b>Reconciliation of profit for the year to EBITDA:</b>		
<b>Profit for the year</b>	<b>4,063,771</b>	4,010,888
Income tax expense	<b>1,351,329</b>	1,317,349
Finance income	<b>(447,748)</b>	(145,097)
Finance expenses (including amortisation of discount on lease liabilities)	<b>120,561</b>	112,458
Depreciation on property, plant and equipment	<b>732,178</b>	589,373
Amortisation of land use rights and intangible assets	<b>49,343</b>	40,868
Depreciation on right-of-use assets	<b>611,447</b>	461,172
Depreciation on investment properties not under operating leases	–	2,024
Depreciation on investment properties under operating leases	<b>60,826</b>	47,025
<b>EBITDA</b>	<b><u>6,541,707</u></b>	<b><u>6,436,060</u></b>

### *Finance Income – Net*

For the year ended 31 December 2022, the Group's net finance income amounted to RMB327,187,000 (2021: RMB32,639,000). The significant increase in net finance income was attributable to the significant increase in the average cash balance (including cash and cash equivalents, short-term bank deposits and long-term bank deposits) of the Group for the year as compared to last year and substantial exchange gains as a result of the change in exchange rate, as well as the adjustment of the Group's currency investment portfolio where more funds were deposited in the form of fixed term deposits for more stable returns, which led to the year-on-year growth of interest income. In addition, interest expenses recognised on lease liabilities increased as well, which partially offset the increase in interest income.

### *Income Tax Expense*

For the year ended 31 December 2022, the income tax expense of the Group amounted to RMB1,351,329,000 (2021: RMB1,317,349,000) and the effective tax rate was 25.0% (2021: 24.7%). Currently, the Group's income tax expense is in line with the standard level.

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

Affected by the pandemic, the Group's revenue growth for the year has slowed down and the gross profit margin decreased year-on-year, while the gross profit increased slightly. Given that certain fixed expenses failed to be adjusted along with the slowdown in revenue growth, there was also a slight increase in expense ratio. During the year, the Group's profit attributable to equity holders amounted to RMB4,063,834,000 (2021: RMB4,010,881,000), representing a year-on-year increase of 1.3%. The margin of profit attributable to equity holders was 15.7% (2021: 17.8%). The return on equity attributable to equity holders was 17.9% (2021: 26.9%).

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

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

As at 31 December 2022, the accumulated provision for inventories was RMB120,531,000 (31 December 2021: RMB93,679,000). During the year, the Group continued to optimize the inventory structure and maintained the inventory ageing structure at a reasonable level through effective inventory management. Due to the relaxation of pandemic-related policies in China at the end of the year and the arrival of the Chinese New Year, the Group increased its inventory balance in order to meet the demand of channel orders and underpin the growth trend of sell-through of stores, so as to meet market demands.

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

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

As at 31 December 2022, the accumulated expected credit loss allowance was RMB159,200,000 (31 December 2021: RMB216,190,000), among which the accumulated expected credit loss allowance for trade receivables was RMB152,511,000 (31 December 2021: RMB208,281,000) and the accumulated expected credit loss allowance for other receivables was RMB6,689,000 (31 December 2021: RMB7,909,000). The trade receivables and other receivables written off during the year as uncollectible and the effect of change in exchange rate amounted to RMB32,669,000 (2021: RMB55,472,000). During the year, the ageing structure improved, and the expected credit loss allowance decreased as compared to the beginning of the year due to the decrease in the balance of long ageing trade receivables. The Group will continue to strengthen its cooperation with franchised distributors and facilitate the growth in orders and the channel development while focusing on the continuous optimization of the ageing structure.

## *Liquidity and Financial Resource*

The Group's net cash generated from operating activities for the year ended 31 December 2022 amounted to RMB3,913,604,000 (2021: RMB6,525,335,000). As at 31 December 2022, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB7,382,218,000, representing a net decrease of RMB7,362,681,000 as compared with the position as at 31 December 2021. Adding back the amount recorded as fixed-term deposits held at banks, cash balance amounted to RMB19,048,838,000, representing a net increase of RMB567,752,000 as compared to 31 December 2021. The increase was due to the following items:

<b>Item</b>	<b>Year ended 31 December 2022 RMB'000</b>
Net cash generated from operating activities	3,913,604
Net cash used in investing activities (including placement and redemption of short-term and long-term bank deposits)	(9,481,433)
Net cash used in financing activities	(1,887,435)
Add: Exchange gains on cash and cash equivalents	<u>92,583</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(7,362,681)</b>
Add: Net increase in long-term and short-term bank deposits	<u>7,930,433</u>
<b>Net increase in cash balance</b>	<b><u><u>567,752</u></u></b>

During the year, the Group shortened the payment cycle to help suppliers accelerate turnover of capital and improve production and operational efficiency, resulting in a significant decrease in net cash generated from operating activities. The Group will continue to place extra emphasis on its cash flow management to ensure stable development of the Company in the long run.

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

For the year ended 31 December 2022, RMB2,148,208,000 of the net proceeds have been used. As at 31 December 2022, RMB6,423,579,000 were unutilised. The unutilised net proceeds from the top-up placing of shares are intended to be used as follows:

Intended use of net proceeds	Percentage of total net proceeds (approximately)	Unutilised net proceeds as at 31 December 2021 (approximately RMB'000)	Amount used during the year ended 31 December 2022 (approximately RMB'000)	Unutilised net proceeds as at 31 December 2022 (approximately RMB'000)	Expected timeframe for utilising the unutilised net proceeds*
Investment in newly launched product categories as well as future business investments when opportunity arises, including international business expansion	40%	3,428,715	797,862	2,630,853	Before 31 December 2026
Investment in reengineered infrastructure and further improvement of the supply chain system	30%	2,571,536	434,155	2,137,381	Before 31 December 2026
Development of the brand and IT system	20%	1,714,357	719,946	994,411	Before 31 December 2024
General working capital	10%	857,179	196,245	660,934	Before 31 December 2024
<b>Total</b>	<b>100%</b>	<b>8,571,787</b>	<b>2,148,208</b>	<b>6,423,579</b>	<b>Before 31 December 2026</b>

\* 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 31 December 2022, the Group's banking facilities amounted to RMB4,100,000,000, without outstanding borrowings.

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

### **Foreign Exchange Risk**

The Group's operations are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group's subsidiaries in South Korea, 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 year. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have had financial impact on the Group.

### **Pledge of Assets**

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

### **Contingent Liabilities**

As at 31 December 2022, the Group had no significant contingent liabilities.

## BUSINESS REVIEW

In 2022, the spread of the COVID-19 variant triggered a new wave of pandemic outbreak, which imposed economic and social impacts on various regions. The macroeconomic environment was confronted with increased uncertainties, yet the impact was temporary. In the second half of the year, owing to the optimization of pandemic prevention and control measures by the Chinese government, the domestic consumption demand gradually rebounded as a whole and the long-term positive fundamentals of China's economy remained unchanged. With the promising prospect of reopening and resumption of sports events, combined with the support of government policies relating to national fitness, the public awareness of health has increased significantly, which is conducive to promoting sports consumption, and hence the market outlook for consumption of sports products remained optimistic. During the year, we continued to step up our efforts in building the LI-NING's experience value by upgrading product technology and adopting multi-dimensional marketing strategies, with a view to enhancing the influence of both our brand and products. Besides, we continued to devote great efforts in the research and development of product technology in a bid to enhance product competitiveness, reinforce our professional image and promote brand recognition. Staying in tune with the times, we also kept abreast of market trend and consumer preference, in order to further delve into the fashionable element of sportswear. Meanwhile, the Group strengthened cost and efficiency management, aiming to grasp business development opportunities while coping with the pandemic. In 2022, with steady revenue and profits, the fundamentals of the Group remained solid and resilient.

During the year, we implemented the strategy of “Single Brand, Multi-categories, Diversified Channels” to improve our layout for professional sports products and further enhance both retail operation capability and channel efficiency, while perfecting the supply chain management system at the same time. In terms of products, we further strengthened the development of the professional sports segment with a focus on the research, development and upgrade of sports technology based on the professional sports attributes of our products so as to improve product performance and optimize our product matrix. On the other hand, we kept abreast of the trend of sports fashion and culture to provide consumers with a more diversified consumption experience and enhance our brand value. For channel development, while optimization of channel structure and efficiency remained our focus, we strengthened the cooperation with quality retailers to improve the quality of our market coverage. In respect of retail operation, centering on the replicable single-store operation model and strategy, we established the standards and model for retail operation management and strictly monitored and implemented the same to facilitate the implementation of retail standards and hence enhance retail efficiency. In terms of supply chain, we placed business development needs as our top priority consistently and established a flexible supply chain management system, aiming to further improve the productivity and business support capability of the supply chain.

### **Latest operational update for the fourth quarter of 2022**

For the fourth quarter ended 31 December 2022, in respect of LI-NING point of sale (“POS”) (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter of last year, the same-store-sales for the overall platform registered a high-teens decline on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-twenties decline and wholesale (franchised distributors) channel registered a low-twenties decline, while the e-commerce virtual stores business registered a low-single-digit decline on a year-on-year basis.

For the fourth quarter ended 31 December 2022, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform registered a low-teens decline on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a high-teens decline, with retail channel decreased by mid-teens and wholesale channel decreased by low-twenties while the e-commerce virtual stores business registered a mid-single-digit increase.



As at 31 December 2022, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,295, representing a net increase of 194 POS since the end of the previous quarter and a net increase of 360 POS since the beginning of this year. Among the net increase of 360 POS, direct retail accounts for a net increase of 265 POS, and wholesale accounts for a net increase of 95 POS. As at 31 December 2022, the total number of LI-NING YOUNG POS in China amounted to 1,308, representing a net increase of 70 POS since the end of the previous quarter and a net increase of 106 POS since the beginning of this year.

### **Focus on the Strategy of “Single Brand, Multi-categories, Diversified Channels” to Upgrade LI-NING’s Experience Value Continuously**

#### ***Continue to optimize the professional product matrix and strengthen core brand competitiveness with technology***

During the year, we persisted in developing our five core categories, namely basketball, running, fitness, badminton and sports casual. Focusing on innovative sports technology, we expedited the release 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 nature of sports products under the LI-NING brand, with a view to tapping into the growing consumer demand for sports products.

- Comprehensive technological transformation was driven by product technology upgrades in the running category. Leveraging the innovative “BOOM FIBER” (雷霆絲) technology for shoe uppers, “Feidian 2.0 Elite” (飛電2.0 Elite) under the Racing Series became the first of its kind to achieve innovative breakthroughs in shoe upper technology and helped top athletes to improve their sports performance. Based on the needs of general joggers, Li Ning designed the unique High Resilience Series. Combining the “LI-NING BOOM” (李寧䨎) technology and the exclusive “LI-NING JIANG” (李寧弓) technology, “Shadow” (絕影) and “Shadow Essential” (絕影 Essential) created an unparalleled technological barrier for the market. Supported by the “LI-NING BOOM” (李寧䨎) technology, “Super Light 19th” (超輕19) adopted differentiated designs for the midsoles and double jacquard fabric for the uppers. Hence, it could cater not only to the needs of daily joggers for professional functions, but also to the demands of consumers for daily outfits and commuting wear. Throughout the year, the product generated a total sales of more than 3 million pairs of shoes and caused a sensation in the running shoe market.
- For the basketball category, we achieved breakthroughs successively and further optimized the product matrix. Leveraging our technology platform and the lineup of sports stars, we offered consumers the total experience of our basketball culture. The “Yushuai 16” (馭帥 16) series applied the “LI-NING BOOM” (李寧䨎) technology on the entire foot area and came with the most popular South Coast color option from “Yushuai 14 – BOOM” (馭帥14 – 䨎), which helped extend the reach of our leading technology platform and sneaker culture. The “Speed” (閃擊) series also rolled out the Ultra edition for professional sports settings, which enhanced the sports experience of consumers with its lighter design and greater starting performance. During the year, the first generation of signature shoes of NBA star Jimmy Butler came to the market and adopted the new Honeycomb Cellular LOC outsoles for the first time. This outsole material was designed specifically to suit Jimmy Butler’s NBA game style and worked well on the wooden courts for professional indoor basketball matches. We also made use of the latest “BOOM FIBER” (雷霆絲) technology on shoe uppers for a lighter wearing experience and better sports performance, so that our shoe features matched the playing style of the sports star.

- We continued to introduce professional products to the badminton category and gained wide recognition in the market. During the year, the control-oriented “Halberd 8000” (戰戟 8000) racket series joined our existing selection of the speed-oriented “Shadow” (鋒影) series and the attack-oriented “Thunderstorm” (雷霆) series. Apart from establishing these three main racket lines, we filed patent applications for our racket technology during the year. We also released the iconic “Blade PRO” (刀鋒PRO) badminton shoes with an emphasis on professional functions. This, coupled with the current “Thunderstorm Protection” (保護雷霆) series for stable performance and “Rapid Start Blast” (快速啟動疾風) series, formed our three major badminton shoes categories. In terms of apparel products, we rolled out the “Wave Breaker” (破浪) jersey. This jersey was made of one-way wicking fabric to help moisture dissipation and aeration during exercise, thereby giving it a quick-dry and cooling effect. The “Wave Breaker” (破浪) series was worn by many international champions and sports stars in competitions to boost their on-court performance. As a result, we gained a good reputation among consumers and enhanced the technology-based image and professional influence of LI-NING’s badminton apparel.
- The fitness category continued to optimize the sports experience and youthful design for consumers. Based on functional technology, we explored exclusive fabric to create high-quality and high-functioning sports equipment. During the year, the “AIRSHELL Air Movement Technology” (AIRSHELL氣動科技) was put into use as our latest invention in functional technology. We adopted an innovative approach and took into account the properties of air to develop sports outfits for different settings. From the perspective of consumer experience, we performed new upgrades of our technology and fabrics on the LI-NING AT technology platform, so as to strengthen the functional and technological attributes of products. During the year, we also launched the brand new “AT DRY ULTRA” quick-dry technology and revamped the “AT DRY FREEZE” cooling technology to deliver significantly better functions than the national standards, thus offering a more comfortable wearing experience to consumers. Furthermore, we established the women’s product matrix for professional sports and all scenarios. With a focus on close-fitting wear, we developed “Qiaoqiao Pants” (翹俏褲) as our key offerings for fitness settings. “Qiaoqiao Pants” (翹俏褲) adopted the innovative INNOLOCK™ shape-enhancing fabric technology to provide a stronger sense of wrapping and support for the body. With kinematics and ergonomics design, it optimized the contour lines and ensured flexibility during exercises.

In respect of the sport casual category, we remained focused on Chinese and sports fashion culture. We devoted intense efforts to exploring the traditional culture and sportswear fashion trends to enrich the cultural value of the brand and drive business growth. To increase product matrix efficiency, the sports casual product matrix was developed for diversified consumers across all market tiers.

- The WADE series continued to evolve and upgraded professional performance while keeping the original style. It combined pop cultural elements and the functional design for basketball games to build a unique sneaker culture. During the year, the WADE series released the brand new “Way of Wade 10” (韋德之道 10). With an enhanced focus on basketball sports, this new series boosted game performance on all fronts. Its first batch of shoes came with the Dawn color option, which was a classic for the Wade series. This set off a boom among young consumers and helped sustain the distinctive sneaker culture of the WADE series. Building on the success of “All City 10” (全城10), the “All City 10V2” (全城10V2) series offered better game performance and exceptional sports experience to consumers. It also came with classic story themes and color options including the Dawn theme and others, which contributed to the outstanding sales results of the “All City” (全城) series.

- The “BADFIVE” street basketball series continued to highlight its streetstyle and fashion attributes. By launching city-themed story packs for its apparel collections, the series established a young, trendy and fashionable brand image among consumers. On the other hand, our “BADFIVE” series basketball shoes also earned consumers’ recognition for its functions. The crossover city-themed version of “Rookie II” (新秀Rookie II) was launched in the second half of the year. Having integrated city culture with basketball elements, the product adopted new techniques and designs to enrich the structure of the uppers, and created an exclusive basketball culture of LI-NING. During the year, we debuted two limited city series, namely “Road to the Final” (問鼎中原) and “See You Later” (得閒飲茶). Meanwhile, the synergy between “Chang An Young n Rich” (長安少年) and “Changsha City” (惟楚有材), our two established IPs, has laid a solid foundation for the future development of the city series.
- The Chinese culture remained the main theme of our sports casual products. During the year, we launched themed product series such as “Rich Everyday” (日進斗金), “Enlightened by the Works of Nature” (天工開悟) and “Gifted Works of Zhuang” (妙筆生花) to attract consumers with our unique products. In the second half of the year, we participated in the “Genius Mom” (天才媽媽) charity project. In collaboration with China Women’s Development Foundation, we helped revive the traditional technique of Qiang embroidery, an intangible cultural heritage, by working with women from ethnic minority groups in northwestern Sichuan and applying their Qiang embroidery works in our cooperation products, which is conducive to the promotion of this intangible cultural heritage.

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

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

- LI-NING basketball continued to enhance its influence and attract consumers’ attention through brand marketing and product marketing. During the year, the Company entered into a basketball strategic cooperation with China School Sports Federation, pursuant to which the Company commenced a 10-year strategic cooperation in relation to nationwide primary and secondary school basketball leagues, where LI-NING brand will become the strategic partner and the sole designated sports equipment sponsor for junior secondary school basketball league and secondary school basketball championships (junior) in China. The Company will also coordinate with the basketball teams of secondary schools in the country so as to provide professional basketball equipment for the teenage players and their coaches. Meanwhile, the LI-NING brand will also become the exclusive organizer and promoter as well as the sole sports equipment sponsor for primary school basketball leagues in China.
- For our running products, we carried out the long-cycle promotion plan for our “Super Light 19th” (超輕19) throughout the year under the promotional theme of “Just Wanna Run” (忍不住想跑). Greater efforts have been devoted in the development of products under the “Super Light” (超輕) series with multiple professional elements adopted. Meanwhile, the goal-setting challenge campaign was held at retail stores to pave way for building initial reputation. In the meantime, we also collaborated with hundreds of running groups across the country to foster full-scale experience and result of word-of-mouth marketing of the “Super Light 19th” (超輕19) running shoes by directly reaching out to the core runner population. In addition to expanding our presence among the professional consumer groups, we precisely accessed the young community by focusing on two major promotion platforms, namely Xiaohongshu (小紅書) and Dewu (得物), which facilitated the effective conversion of sales. Furthermore, we conducted “fast” marketing activities for featured color options such as marshmallow, energy and ice-cream in pace with product launches to constantly create new interests in the Super Light running shoes, hence upkeeping

the novelty of products to our consumers. Leveraging elements such as story-based color options and “light sportswear for light sports”, our promotion campaigns successfully went beyond the involution and reached a wider audience.

- 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 promoted our badminton products via self-media platforms such as Weibo, WeChat public account, Douyin (抖音) and WeChat video channel, and synchronously on platforms including cooperation channel, vertical platforms, industry media and public channels so as to continuously enhance brand awareness among consumers. We focused on sponsorship resources, key international sporting events and brand campaigns for publicity and promotion of product launch. In tandem with the integration of media platforms, we proactively developed hot-selling products. During the year, LI-NING badminton signed up with star athlete Goh Jin Wei (吳堇溦), who won the girl’s singles title at the BWF World Junior Championships and the Youth Olympic Games in order to continue expanding the pipeline of sponsorship resources of Li Ning badminton. These athletes were contracted to endorse our latest products, including the “Thunderstorm 90” (雷霆90), “Blade PRO” (刀鋒PRO) and “Thundercloud” (雲霆) series, which helped to garner attention of the industry.
- For women fitness, it is our objective to rapidly gain market recognition and reinforce the professional sports image of the LI-NING women brand. We formulated popular marketing strategies featuring “Rourou Pants” (揉柔褲) and “Qiaoqiao Pants” (翹俏褲) as core products and launched product promotion campaigns under the theme of “Your Greater You” (讓你的俏更翹), with a view to better demonstrate the products’ body-shaping features for women by highlighting their sports attributes. Meanwhile, the collaboration with the sports-fashion community and KOLs allowed us to precisely reach our target consumers and develop our product and brand awareness. Following the opening of official accounts on Weibo, Xiaohongshu (小紅書) and WeChat mini program, we continuously published contents in relation to product launch articles, analysis of product technologies, specialist’s recommendation, fashion tips and offline activities, with a focus on Xiaohongshu (小紅書) platform to capitalize on its strong capability in nurturing sales. Besides, we leveraged the influence of Elaine Zhong (鍾楚曦), our spokesperson, Wang Run (王潤), a contracted street dancer, as well as other partnering artists and KOLs for promotion and established a platform for direct communication with female consumers, through which we offered more professional information and activities guides to the LI-NING women community. These efforts were dedicated to further ramp up product sales by enhancing user’s recognition and loyalty to the brand and boosting the competitiveness of LI-NING’s women fitness brand.
- For sports casual, we continued to push forward the “Rich Everyday” (日進斗金) series and further promoted the cultural connotation in the series. The “Rich Everyday” (日進斗金) series embodied the precious emotional connections underlying the rituals of Lunar New Year and encompassed the good wishes and blessings of people, hence evoking emotional resonance among consumers. On the basis of the design inspiration of the products, a series of avant-garde videos was launched in collaboration with Huang Xiao (黃瀟), a contracted street dancer. The flexibility and magnificence of the Zhuang culture was portrayed in the videos through the “One Dance” (一支舞) performance. Furthermore, we invited a successor of Zhuang’s intangible cultural heritage to engage in our themed activities, enabling consumers to have a deeper understanding of the Chinese culture series and a better experience with our product storyline. To reinforce the core competitiveness of our female products, we used Xiaohongshu (小紅書), which has a high proportion of female users, as the major platform to lay out content matrix for product promotion. We also leveraged the benefits of cross-sector brand collaboration, entertainment marketing resources and media influence to arouse discussions on and bolster popularity of our women products.

***Accelerate the development of quality channel and establish a new channel image with a focus on expansion and optimization of channels***

In 2022, the Company remained focused on optimizing the structure and efficiency of channels and strengthened the cooperation with high-quality retailers, which enhanced the efficiency of retail channel and the quality of market coverage. During the year, the Company optimized the development of channels with a focus on big stores in shopping malls and launched big stores with high efficiency including flagship stores on a continuous basis. Meanwhile, the Company further optimized the store structure by accelerating the closure of loss-making, low efficiency and small stores.

During the year, the Company continued to upgrade the visual image of its stores and developed and implemented the latest 9th generation image, at the same time focusing on facilitating the development of the 8th generation image store. As of 31 December 2022, the percentage of 8th generation image stores has increased to 60%, while old image stores such as the 6th generation ones were phased out. The Company introduced new types of stores, namely the basketball home court store and premium outlet, which were complemented with all-new store images. As of 31 December 2022, 5 basketball home court stores and 2 premium outlets have opened for business.

As of 31 December 2022, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,603, representing a net increase of 466 POS as compared to 31 December 2021. The number of distributors was 52 (including sales channels of China LI-NING stores), representing a net decrease of 13 as compared to 31 December 2021. The number of POS breakdown as of 31 December 2022 is as follows:

<b>LI-NING Brand</b>	<b>31 December 2022</b>	31 December 2021	<b>Change</b>
Franchised	<b>4,865</b>	4,770	2.0%
Directly-operated retail	<b>1,430</b>	1,165	22.7%
LI-NING YOUNG	<b>1,308</b>	1,202	8.8%
<b>Total</b>	<b>7,603</b>	<b>7,137</b>	<b>6.5%</b>

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

<b>Regions</b>	<b>31 December 2022</b>			<b>31 December 2021</b>			<b>Change</b>
	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	
Northern Region <i>(Note 1)</i>	<b>3,184</b>	<b>786</b>	<b>3,970</b>	3,034	756	3,790	4.7%
Southern Region <i>(Note 2)</i>	<b>3,111</b>	<b>522</b>	<b>3,633</b>	2,901	446	3,347	8.5%
<b>Total</b>	<b>6,295</b>	<b>1,308</b>	<b>7,603</b>	<b>5,935</b>	<b>1,202</b>	<b>7,137</b>	<b>6.5%</b>

*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 optimize the management of the overall inventory with an increasing focus on the professional product category***

In 2022, the product management department continued to reinforce the product management mechanism and optimize customers' shopping experience. With key products as the core, the Company continuously enhanced the product operation efficiency by maintaining a reasonable inventory level and lowering the out-of-stock ratio. Meanwhile, the Company purposefully raised the proportion of professional products and shoes products to strengthen the focus on the professional product category.

- Continuously pushing forward product planning and optimizing the operating mechanism with the synergy of merchandise planning, promotion and marketing planning and consignment site planning, it enhanced the precision of sales and management, and achieved maximum efficiency of core products. With a focus on story packs, the Company rigorously implemented the sales plan as well as the promotion and marketing plan. In the meantime, it expanded the product display area at consignment sites for a better display of promotional materials, at the same time strengthening in-store communication with consumers and improving in-store presentation to promote the standard of stores. The Company also built up the order depth of core products and controlled the breadth of product offering, hence fostering focused attraction on core products.
- Based on the targets of annual business volume and inventory control, the Company established the management mechanism for the monthly target inventory and analyzed the soundness of inventory on a weekly basis so as to identify inventory risks, formulate and implement inventory control strategies. At the same time, based on the quarterly and annual target inventory ageing structure, the Company accelerated destocking of old inventories. Under the impact of the COVID-19 pandemic and other external uncertainties, store traffic dropped drastically. Therefore, higher requirements were put forward on refined management over inventories. In addition to rigorously monitoring and managing the inventories on a weekly basis, the Company also controlled the movement of inventory on a full-year basis, with a view to maintaining a generally reasonable inventory turnover and inventory ageing structure.
- The Company continued to focus on the research and development of functional products. With professional running and professional basketball as the core, it expanded the product matrix of its core technology platform “LI-NING BOOM” (李寧轟) and extended the depth of its professional products to prevent from being short-in-color and short-in-size. With a sufficient inventory in place to meet consumers' demand, the Company may avoid loss of business opportunities. Besides, the Company focused on showcasing the product matrix of the core technology platform to boost the sales promotion in stores. It carried out display and promotion of overall matching outfits with professional shoes and apparel products to highlight the professional sports attributes of its products and elevate the sports experience of customers. Taking the “Super Light 19th” (超輕19) running shoes as an example, the Company integrated the marketing and sales efforts by combining the inventories for the e-commerce channel and physical stores offline. It also performed timely and dynamic management over the ordering, sales and inventory of the products, and further increased orders for products with spectacular sales performance to prevent out-of-stock situations. Eventually, this product yielded a substantially higher sales volume as compared to the “Super Light 18th” (超輕18) running shoes, setting a new record high for sales of a single shoe product.

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

Throughout 2022, the Company carried on the exploration of a profitable single-store operation model as its core business and further developed the headquarters' functions and the store business. Combined with the Company's channel planning for the future, the implementation of the standards at stores was pressed ahead and retail efficiency was enhanced.

- During the year, the Company refined its model stores to hone its operation model for big stores with consistent efforts devoted to the development in four aspects, i.e. the implementation of sales plans, the improvement of operating performance indicators of stores, the development of the operation model for big stores, and the consolidation of resources under the “100 stores with sales over RMB1 million” project (百店百萬項目), aiming to propel more business ventures in its store business. Meanwhile, the Company further strengthened the daily management of stores, including the organizational structure of stores, store operation standards, management of new retail businesses, operation management during peak seasons, etc., thereby establishing the basic standards and models for big stores management, which were verified upon implementation.
- In the first half of 2022, adhering to the LI-NING Retail Operation Manual, the Company completed the training and evaluation for all employees at retail front. In the second half of the year, the Company promoted and implemented the internal supervision mechanism of operation standards, and fostered an atmosphere of “Learning, Highly Valuing and Strictly Implementing the Standards” among the retail stores team through the supervision over and feedback from all core stores. In the meantime, the second edition of the LI-NING Retail Operation Manual was also completed, which served as a foundation for the development of a standardized system for retail business in 2023.
- The Company strengthened the management over its retail business portfolio by consolidating the individual business guidelines issued to retail stores by the headquarters' functions, hence establishing a closed-loop management mechanism for release of information and confirmation of feedback to realize unified two-way management over sending and receiving of information. Looking forward, the Company will track and provide feedback on the execution rate and passing rate of the business on a weekly basis by making use of the retail operation platform, which will further enhance the quality and execution efficiency of the business portfolio and empower the business continuously.
- Based on the development needs of the retail business in the next three years, the Company has stepped up its efforts in nurturing retail talents internally. In 2022, the Company remained committed to the establishment of a talent system for sustainable development. Centering on the capability model of retail talents, it strictly implemented the mentor mechanism and talent cultivation scheme at retail stores with a view to creating a sustainable environment for talent development and nurturing fresh talents for its retail transformation.
- To comprehensively reshape the management models and approaches of the new retail businesses, the Company optimized the business system and communication mechanism that are empowered by the headquarters and applied to new retail businesses carried out by retail stores, which has in turn realized regulated and standardized communication between the retail team and the consumers, hence maximizing the sales opportunities of the retail stores.

### ***Continue to improve quality of the logistics network and press on with logistics informatization***

In 2022, the Company continued to propel the reform of logistics network with an aim to enhance both the logistics capability and service quality in key regions. It also edged up its effort in reinforcing logistics informatization so as to ensure transparency throughout the logistic information chain, which has in turn provided strong logistics support for retail management.

- The Company continued to further optimize the logistics network. Following the development of the East China Central Warehouse in 2021, the Company gradually established a logistic warehouse network comprised of central warehouses in North China, South China and Central China in 2022, thereby attaining the goal of building up its warehouse and distribution capability in key retail regions. During the year, the Company initiated a logistics network co-construction project in collaboration with its strategic customers, aiming to bring into play the strategies of strengthening logistics capability and optimizing costs through the sharing of resources and businesses among the parties.
- With consistent focus on increasing the proportion of direct delivery of products at stores and improving sorting and distribution quality, the proportion of direct delivery of the year exceeded 70%. In the meantime, the proportion of the use of same packaging box for the same product was increased to 71%, thereby further enhancing the efficiency of delivery acceptance at retail stores.
- During the year, the Company launched a logistic management platform with full coverage of the entire logistics business from warehousing appointment, delivery planning, transportation management to fee settlement. After the introduction of the warehousing appointment segment in the first half of the year, the Company launched the logistic management platform in the second half of the year with SAP (Systems, Applications and Products in data processing), OMS (Order Management System) and the logistic management platform being put into operation in phase 1. Another seven segments and four structures, including S&OP (Sales & Operations Planning), BMS (Billing and management system), special delivery and electronic receipt confirmation, will be launched gradually in the later phases.
- The Company entered into automated logistics operation in full stream in 2022. Upon the launch of retail-oriented sorting automation in the East China Warehouse during the first half of the year, logistic warehouses in North China, Central China and South China also started to implement the retail-oriented sorting automation solutions successively. During the year, the consolidated efficiency of retail-oriented sorting has been improved to over 80%, while the storage efficiency has been improved to 100%.

### ***Adhering to the core strategies of e-commerce to maintain high operation efficiency and create core competitiveness of the brand***

In 2022, the e-commerce sector was confronted with challenges brought by frequent and sporadic outbreaks of the pandemic. Despite the weak consumption environment, the e-commerce of Li Ning Company still managed to maintain a stable performance. Benefitted from the advanced preparation and deployment by the team, as well as their long-running digitalization operation, all operation activities were carried out steadily and orderly. During the year, the e-commerce of Li Ning Company remained focused on functional products and greatly enhanced the efficiency of professional products. Based on the core strategies, the e-commerce team of Li Ning Company gained in-depth customer insights and promoted consumer education. To build core competitiveness for the brand, it maintained highly efficient operations and secured stable and sustainable growth as well.

At the same time, 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 pushed forward the development, restructuring and optimization of the membership and omni-channel systems in a steady and orderly manner. The turnover from cross-channel transactions through diversion of registered members online to offline transactions almost doubled from that of the previous year, resulting in additional revenue growth. In respect of consumer behavior insight among the members, the membership department continued to optimize the consumer analysis system and improved the consumer experience analysis system into a more powerful one for experience in respect of our products and services.

In 2023, the e-commerce of Li Ning Company will strive to adjust its retail operation and return to the normal pace in the post-pandemic world. To this end, it will continue to strengthen the product synergy in key technology pipelines for online and offline business systems. With a focus on professional and functional products, it will continue to achieve breakthroughs in terms of market share and maintain its industry-leading position. 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.

***Continuous optimization of the supplier matrix for the stable allocation of supply resources and the best-in-class flexible supply system***

In 2022, the supply chain underwent ongoing enhancement and improvement in areas such as the supplier matrix, procedure optimization, quality standards, supply cycle, strategic cost and operating model. As a result, the Company established an agile and flexible supply mechanism with the capability to safeguard its business. While the Company offered integrated ancillary facilities from earlier to later stages of production, it also implemented the strategic partnership mechanism for dual production sites. During the year, the Company focused on developing the fundamental capabilities and upgrading the specific capabilities of the supply chain, thereby further increasing its fundamental strengths in production capacity and quality assurance. In parallel with that, it reviewed the capability and potential of suppliers so that it could continue to optimize the supplier matrix.

- The business growth of the Company was driven by the research and development of innovation technology. To increase the proportion of functional products in the business, the Company extended the application of the technology platform steadily and offered industry-leading functional materials for the professional sports segment. The innovation, research and development as well as application of professional sports products with technological attributes were prioritized, and the focus was kept on five core categories, namely running, basketball, fitness, indoor sports and women fitness. On top of that, the Company fostered closer collaboration with high-quality supply resources and professional research institutions to upgrade core materials, so as to provide a more comprehensive sports experience to consumers in professional sports and leisure settings. At the same time, the Company put professional products and environmentally-friendly products into wider use, which helped increase the mix of professional products under its brand and incorporated environmental and social responsibilities into its products.
- With a focus on achieving better supplier competitiveness, suppliers were invited to engage in synchronized development and mass production. This encouraged them to compete in a constructive manner, improve supply capabilities more actively and create a positive atmosphere for cooperation along the supply chain. During the year, the Company continued to advance supplier and brand digitalization. It promoted the use of the information sharing platform across all business units, which included the production department, cost department and quality control center. Thus, production efficiency and information accuracy were significantly boosted. Looking forward, the Company will remain focused on developing the supplier selection and elimination mechanism. The technological capabilities of factories will be closely scrutinized and evaluated, and development outcomes will be quantified and digitalized to optimize the production line matrix for suppliers. In addition, the Company will strengthen and implement the quality management system throughout the supply chain. It will adopt product quality control measures at earlier stages, improve the quality control system at factories, and facilitate better control over the production process for higher supplier quality and efficiency. The Company set up a quality control system for factories and supported its effective operation by developing and enhancing standardized procedures. In constant pursuit of zero defect product in production, it proposed more stringent requirements for quality standards and set up

comprehensive quality standards that covered product “quality, appearance and taste”. Apart from meeting the requirements for product launch, the Company raised its product standards in line with consumer experience and preference. It also applied product quality, responsibility and management standards to all business functions. Through comprehensive quality control practices, it ensured the production efficiency and accuracy of suppliers.

- The Company continued to optimize supplier resources. It further consolidated the production capacity of main suppliers and eliminated low efficient suppliers. Moreover, it assigned production tasks to factories more reasonably based on their capacity. To enhance the cost performance of products, it upgraded production materials and techniques, strengthened resource sharing and controlled the rise of bulk purchasing cost effectively. The Company accelerated the expansion of business scale and pushed forward the transition from “passive production” to “proactive production”. Leveraging product optimization, it maintained control over production costs. Besides, it strengthened the digitalization system and optimized the production process to better facilitate fast decision-making with digital analysis.
- The Company continued to step up its efforts in promoting corporate social responsibility along the supply chain. The use of forced labor by suppliers was prohibited in the course of operation, and proactive measures were adopted to mitigate the risk of forced labor in the supply chain. The Company will enhance its due diligence process to determine whether forced labor practices exist in the supply chain, and evaluate suppliers’ performance regarding corporate social responsibility, including anti-forced labor measures, annually by way of questionnaire and internal and external audits. Where an instance of forced labor by any supplier comes to light, the Company adopts a zero-tolerance policy and has the right to terminate the cooperation relationship or suspend the introduction procedure of the supplier until the completion of the relevant rectification measures and upon confirmation by the Company.

## **NEW BUSINESS**

### ***LI-NING YOUNG***

In 2022, LI-NING YOUNG set clear mid-to-long term business plans and strategic goals with a focus on the sports-centric strategy. The Group scaled up its efforts in the development of professional sports product lines and continued to enhance channel efficiency, with a view to promoting business growth on an ongoing basis.

- In respect of products, the Group continued to raise the proportion of the professional sports product category with a strong emphasis on the development of three major categories of sports products, namely basketball, running and football. Establishing a sports technology-based platform and product matrix targeting teenagers, the Group expanded the application of technological platform for children sports products. During the year, it launched professional products such as the teenager version of “Super Light 19th” (超輕19) and “All City 10” (全城10) that integrated the “LI-NING BOOM” (李寧響) technology, in a bid to build a professional sports brand for teenagers. In order to enhance the technology attributes of professional products, the Group upgraded its fabric technology, created design features and collaborated with authoritative institutions. In addition to optimizing the product layout in campuses, the Group enhanced the technological features of its products and improved the experience of end-consumers.
- 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 and model stores with store efficiency enhancement as the main business focus. It has also perfected the digitalized system to strengthen its management capability of retail stores.

- For marketing, after merging the professional sports marketing department, the Company re-planned and re-defined the marketing functions and opened up the entire marketing chain that covers the conversion of professional sports resources into brand marketing and store promotion. The Company also increased the number of official sponsorships and cooperations. Such efforts included brand promotion and interactive activities in collaboration with the Group’s marathon events and gymnastics academy, and ongoing joint promotion with external resources related to children sports and children’s well-being, such as the National Library, Walmonos and Chimelong, all being powerful endorsement for its professional sports kidswear brand. Starting with retail stores, the Company steadily established a store membership marketing system, which laid a foundation for effective membership marketing in the future.

As of 31 December 2022, LI-NING YOUNG business covered 31 provinces, municipalities and autonomous regions with a total of 1,308 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 continued to develop the internal operation system and fostered a four-in-one management model that covers organization, talent, incentive, culture and staff relationship.

- Regarding organisational development, combined with a strategic consumer-oriented approach, the Company streamlined and re-developed the processes throughout the product chain, and facilitated the automation transformation and optimization of the overall process of the Group by establishing an organizational risk control model. Meanwhile, the Company promoted the integrated development of its retail units and innovative businesses with adjustments made to the management and control model for business structures of various brands including China LI-NING and LI-NING 1990.
- In terms of talent management, staying committed to the principle of building teams of hand-picked elites, the Company devoted consistent efforts in both external recruitment and internal development, contributing to a solid growth in internal talent population, which ensured both the introduction of core talents and development of talent teams at the same time. The Company also developed a talent cultivation system for its headquarters and retail business, through which it has provided systematic training to outstanding management talents with high potential with a view to enriching the reserve of its talent supply chain on a continuous basis. The Company remained keen on identifying young talents, aiming to further inject young blood into its talent pool by means of diverse approaches, such as deploying more key resources in this regard.
- In terms of remuneration and performance management, on the premise of improving the efficiency of human resources, the Company optimized the position-based compensation structure and system in an effort to enhance its competitiveness in terms of remuneration relating to front-line staff and outperformers. In the meantime, from the performance perspective, the Company strengthened the use of performance results as well as in-process data and indicators as a guiding reference with strong emphasis placed on the evaluation of organizational capacity and efficiency, striving to motivate its staff to embrace higher objectives by offering them encouraging incentives.

- Regarding culture and staff relationship, the Company further strengthened the code of conduct for employee based on its core values. By organizing various honorary incentive projects, the Company aimed to build a sound corporate culture atmosphere, and increased the sense of honor and mission among its staff. It also constantly optimized the staff welfare system so as to improve staff satisfaction and engagement. In the midst of severe local outbreak of the pandemic, the Company provided its staff with pandemic prevention materials, as well as organized and conducted special pandemic-related mental health training, activities that offer sports-related physical rehabilitation experience, and physical health-related emergency rescue trainings in a bid to further enhance the health awareness of staff, helping them to master the necessary protection and psychological counseling methods in relation to occupational health. Meanwhile, the Company continued to improve its employee feedback and communication mechanism, which allowed them to put forward suggestions, express appeals and feedback in a timely and efficient manner. Furthermore, having placed much emphasis on the education of labor rights protection, the Company strengthened the compliance trainings on anti-forced labor for all employees in an endeavor to achieve continuous improvements in terms of corporate social responsibilities.

In the future, the Company will invariably focus on business strategies, pursue the highest organisational efficiency at the least cost with persistent efforts in building a “muscular organization”. It will also remain committed to sustainable development of the talent supply chain system and optimization of the internal incentive mechanism. On the basis of reasonable investments in and allocation of human resources, the Company will continuously foster and iterate on its organisational capacity and competencies of its employees so that they will be able to adapt to the Company’s business development and efficiently support the realization of the Company’s strategic goals.

As at 31 December 2022, the Group had 4,610 employees (31 December 2021: 4,019 employees), among which 4,422 employees were at the Group’s headquarters and retail subsidiaries (31 December 2021: 3,838 employees), and 188 employees were at other subsidiaries (31 December 2021: 181 employees).

## **OUTLOOK**

In 2023, continuing to pursue the strategy of “Single Brand, Multi-categories, Diversified Channels”, we will push forward the business development, enhance retail operation capability, further promote LI-NING’s experience value and the sustainable growth of the Company’s results constantly:

- In respect of products, we will continue to put greater efforts in research and development of product functions and technological innovation. We will provide consumers with more professional and functional sports products integrated with fashionable elements, which will better showcase sports fashion and culture and provide consumers with diversified consumption experience, so as to expand our brand influence;
- In respect of channel development, we will remain focused on expansion and optimization of channels. We will speed up the development of shopping mall channels, launch big stores with high efficiency, such as flagship stores, and achieve the synergistic operation of the omni-channel by developing diversified channel network, thereby further enhancing the efficiency of our channels;
- In respect of retail operation and supply chain, we will continue to enhance both product and consumption experience, and optimize the standardized retail operation system and internal monitoring system to drive retail transformation. The supply chain system will be further consolidated and optimized to boost our capabilities in terms of our own supply chain management and the application of technology and expertise resulted from the research and development;
- In respect of marketing, we will leverage big data and information technology to strengthen our marketing layout through digitalized technology in order to reach a wider range of consumer groups at different levels. We will also apply diversified marketing means based on consumer demands to increase the product appeal and brand awareness;

- In respect of new business, focusing on enhancing single store profitability as well as store efficiency and performance, we will continue to utilize resources flexibly, explore business opportunities and market potential in order to boost the sustainable business growth of the Company.

With the optimization of the overall pandemic prevention policies, the steady recovery of China's economy has facilitated the growth of domestic consumption demand, as well as driven the sports consumption, which is conducive to promoting the development of sports industry and developing public awareness of healthy lifestyle. Coupled with the national policies that support sports activities and promote public awareness of physical fitness, the sports product industry will be provided with a strong impetus for growth. Based on its own advantages, the sports industry will seek further breakthroughs to expand beyond the professional field and become widely accepted by the general public in a more diversified and refined manner. We strongly believe that the sports market has a promising outlook with enormous potential for development. As one of the leading enterprises in the professional sports sector in China, the Group will keep abreast of the development trend of the industry, and strive for exploration and innovation. We will pursue the brand philosophy of "Anything is Possible" in a bid to establish a more professional, fashionable and unique image for LI-NING brand.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company did not redeem any of its shares during the year ended 31 December 2022. Except for the purchase of shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award Scheme, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

## **CORPORATE GOVERNANCE**

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2022, the Company has complied with the code provisions of the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except for the following deviation with considered reason as explained below.

According to code provision C.2.1 of the CG Code, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. During the year of 2022, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer ("Joint CEO"), and Mr. Kosaka Takeshi, the Executive Director and Joint CEO, jointly assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and Joint CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that Mr. Li Ning and Mr. Kosaka Takeshi can complement with each other in performing the roles of the Joint CEOs, and create synergy effect which is in the interest of the Company and its Shareholders as a whole.

Details of the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2022 annual report of the Company.

## **AUDIT COMMITTEE**

The Audit Committee of the Company, consisting of three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2022.

## **ANNUAL GENERAL MEETING**

The AGM of the Company will be held at 11:00 am on Wednesday, 14 June 2023.

The notice of the AGM will be despatched to the shareholders of the Company together with the 2022 annual report of the Company on or around 18 April 2023 and published on the website of the Company (<http://ir.lining.com>) and the “HKExnews” website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

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

Hong Kong, 16 March 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.*