

BUSINESS

OVERVIEW

We are a multi-brand operator principally engaged in (i) design and development, branding and sales of sports and lifestyle apparel and footwear, and (ii) provision of sports experience. We offer sports experience through (a) management and operation of sports parks, sports centres and ice-skating rinks and (b) management and operation of e-sports clubs, coordination of sports events and sports-related marketing services.

The table below sets forth a breakdown of our revenue by business segment for the periods indicated:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Multi-brand apparel and footwear (Note 1)	438,994	53.6	851,222	61.6	6,399,546	92.7
Sports experience						
– Sports destination development (Note 2)	169,153	20.7	269,365	19.5	244,076	3.5
– Sports team and event management (Note 3)	210,889	25.7	261,050	18.9	256,768	3.8
Sub-total of sports experience:	380,042	46.4	530,415	38.4	500,844	7.3
Total	819,036	100.0	1,381,637	100.0	6,900,390	100.0

Notes:

- Our apparel and footwear brands mainly include “Clarks”, “Bossini”, “bossini.X”, “LNG” and “Amedeo Testoni” during the Track Record Period. We acquired a majority stake in Bossini in July 2020 and our revenue attributable to “Bossini” (including “bossini.X”) was HK\$421.0 million, HK\$702.5 million and HK\$593.5 million, representing 51.4%, 50.8% and 8.6% of our total revenue, in FY2020, FY2021 and FY2022, respectively. We completed the First Clark Acquisition in July 2022 and our revenue attributable to “Clarks” in FY2022 was HK\$5,386.9 million, representing 78.1% of our total revenue for the year.
- Sports destination development mainly comprises management and operation of sports parks, sports centres and ice-skating rinks.
- Sports team and event management encompasses management and operation of e-sports clubs, coordination of sport events and sports-related marketing services.

Our Company was first listed on GEM in 2000, and was then an online healthcare content and service provider. In May 2010, Lead Ahead (ultimately controlled by Mr. Li Ning), one of the current Controlling Shareholders acquired control of our Company and we embarked on a new corporate branding and began to engage in sports-related business, primarily comprising sports destination development business and sports team and event management business. In late 2019, we embarked on our multi-brand apparel and footwear business through various acquisitions.

BUSINESS

Multi-brand apparel and footwear business

We acquired the trademark of a fashion brand “LNG” in late 2019 to embark on our apparel and footwear business and expanded our portfolio by acquiring Bossini (the owner of “Bossini”, a well-known casual wear brand in Hong Kong and the PRC) in July 2020, Viva China Premium Brands (the owner of “Amedeo Testoni”, a luxury leatherware brand based in Italy) in January 2022, and the Clark Group (the owner of “Clarks”, a well-known British footwear brand with history of almost two centuries) in July 2022. We currently focus on retail and distribution of (i) fashion and casual footwear under “Clarks” focusing on the UK and the US markets, (ii) casual wear under “Bossini”, (iii) apparel, footwear and accessories under “bossini.X”, a streetwear brand created by our Group targeting at the middle-end streetwear market in the PRC in an effort to rebrand “Bossini”, (iv) apparel, footwear and accessories under “LNG”, a streetwear brand with ACGN elements targeting at millennials in the PRC, and (v) luxury leatherware under “Amedeo Testoni” in Europe and Asia.

The table below summaries our major brands that we currently operate in terms of (i) brand logo, (ii) product offering, (iii) target markets/style, and (iv) major geographical coverage:

	“Clarks”	“Bossini”	“bossini.X”	“LNG”	“Amedeo Testoni” (including its diffusion line “i29”)
Brand Logo					AMEDEO TESTONI
Product Offering	Footwear and accessories	Apparel	Apparel, footwear, accessories	Apparel, footwear, accessories	Leatherware (including footwear and apparel) and accessories
Target Market/Style	Fashion and casual footwear (such as handbags and small leather goods)	Casual wear	Streetwear with sports element	Streetwear with ACGN elements	Luxury
Major Geographical Coverage	the UK and the US	PRC, Hong Kong, Macau and Singapore	PRC	PRC	Europe, Hong Kong, Taiwan, Japan and South Korea

BUSINESS

We have multiple sales channels covering offline sales channels (including directly-operated stores, wholesales and partnership stores) and online sales channels. As at 31 December 2022, our “Clarks” operation had 535 directly-operated stores mainly in the UK, the ROI and the US and 3,256 wholesale customers mainly in EMEA and the US. Offline sales channels for our Other Brands comprised 241 directly-operated stores primarily in the PRC and Hong Kong, 93 distributors with distributorship stores primarily in the PRC, Southeast Asia, the Middle East and Eastern Europe, and 31 partnership stores in the PRC as at 31 December 2022. We established our online presence on various online sales platforms, including our flagship online store, T-mall, JD.com, Xiaohongshu and Douyin. During the Track Record Period, we sold our apparel and footwear predominantly through our directly-operated stores. In order to capture the business potential in the e-commerce market, we established an e-commerce team in February 2021, comprising 200 members as at 31 December 2022, to manage and oversee our online sales channels and digital marketing strategies.

Whilst we outsource most of the manufacturing process to OEM suppliers, we established a shoe factory in the PRC in 2021 to reinforce our footwear design, research and development capability. Our shoe factory produces casual trainers and vulcanised shoes for our own brands. It also provides footwear OEM services to LN Group and other footwear manufacturers in order to better utilise our excessive production capacity.

Sports experience business

Our Yangzhou Li Ning Sports Park, which officially opened in October 2015, was the first sports park managed and operated by us under the brand of “Li Ning Sports Park” (李寧體育園). On top of expanding our sports parks and sports centre portfolio, we tapped into the ice-skating rinks business by acquiring “All Star Ice Skating Club” (全明星滑冰俱樂部) in late 2019. As at the Latest Practicable Date, our Group managed and operated (i) nine sports parks and sports centres under the brand of “Li Ning Sports Park” (李寧體育園) in different cities of the PRC and (ii) eleven ice-skating rinks under “All Star Ice Skating Club” (全明星滑冰俱樂部) in some of the first-tier and second-tier cities in the PRC. In such sports destinations, we mainly derive revenue from (i) entrance fees from visitors of such sports destinations, (ii) tuition fees from provision of sports coaching and training on the site, (iii) service fees for organisation of sports events and competitions on the site, (iv) rental income from leasing of units to retailers and restaurants, and (v) sales of consumables at the sports destinations. We also receive subsidies and/or fees for the management and operations of the sports parks and sports centres.

BUSINESS

Our sports team and event management business primarily includes e-sports clubs management and sports events management. In 2019, we began our e-sports clubs management business by acquiring the then “Snake Esports” e-sports club and renaming it as “LNG Esports” which is currently one of the major e-sports clubs competing in the League of Legends Pro League. In September 2020, we established another e-sports club “LNG.M TEAM” which competes in the Onmyoji Arena Pro League. Our e-sports clubs generate revenue from (i) sharing of revenue from sponsorship fees and sales of live-broadcasting rights and/or live-viewing tickets of e-sports tournaments, which the organisers pay us based on factors such as our e-sports clubs’ performance and ranking, (ii) sponsorship fees, and (iii) transfer fees paid by another clubs for recruiting e-sports athletes from our clubs. To create synergy between our e-sports club management business and apparel and footwear business, we connect the name of our e-sports clubs with our “LNG” brand and roll out e-sports-themed apparel and footwear with ACGN elements under such brand. We expect the increasing popularity of e-sports and our e-sports clubs will help promote our “LNG” brand.

Overview of our historical performance

We recorded substantial increase in revenue from HK\$819.0 million in FY2020 to HK\$6,900.4 million in FY2022, with a CAGR of 190.3%. Such increase was mainly contributed by our Group’s multi-brand apparel and footwear business through (i) the acquisitions of Bossini in July 2020, Viva China Premium Brands in January 2022 and the Clark Group in July 2022; and (ii) the growth of our footwear OEM business and “LNG” brand. With the effect from Beijing Winter Olympics in 2022 and the Chinese e-sport team’s victory in the 11th League of Legends World Championship, the interest in winter sports and e-sports continued to heat up in the PRC. Coupled with the gradual economic recovery from COVID-19, revenue from sports experience segment improved in FY2021 compared to FY2020, and decreased slightly in FY2022 compared to FY2021 due to the temporary closure of our sports destinations in response to the national pandemic prevention measures amidst the resurgence of COVID-19 during the year.

We believe that sports will become a key area of development in the PRC as it is the current government initiative and national policy to promote sports, and that there will be growing market demand for diversified sports experience, driven by stronger health consciousness among the public. We will continue to advocate healthy lifestyle, promote sports culture and develop our business of sports and lifestyle consumables and sports experience under multi-brand strategy, striving for the vision of “sports for all” and ultimately generating greater value for the our Shareholders.

BUSINESS

OUR COMPETITIVE STRENGTHS

We believe that the following strengths have been the key contributors to our success and will continue to enable us to increase our market share and capture future growth opportunities:

Well-positioned to capture the business opportunities in the apparel and footwear market

Our “Clarks” footwear business operates in the global fashion and casual footwear industry whereas the business of our Other Brands mainly operates in the PRC and Hong Kong fashion industry. According to the Frost & Sullivan Report, (i) retail sales of the global fashion and casual footwear industry increased from US\$174.7 billion in 2016 to US\$187.7 billion in 2021 at a CAGR of 1.4%, and is expected to reach US\$209.4 billion in 2026 at a CAGR of 2.2%, and (ii) retail sales of the PRC fashion industry grew from US\$291.2 billion in 2016 to US\$353.3 billion in 2021 at a CAGR of 3.9%, and is expected to further increase to US\$437.5 billion in 2026 at a CAGR of 4.4%, driven by the economic growth and increasing consumption power of the citizens in the PRC.

The apparel and footwear industry is driven by, amongst others, (i) the rise of new generation of consumers, namely the millennial and Generation Z who pay more attention to self-expression and individuality, quality, and brand reputation, (ii) digital transformation which is driven by the emergence of online channels and popularity of social media platforms, and (iii) diversification of consumer demands where fashion brands are expected to diversify their brands and product portfolio to capture the market of different consumer groups. In light of the above, we believe that our multi-brand strategy and omni-channel capability place us in a good position to capture the business opportunities in the apparel and footwear industry.

Diversified portfolio with differentiated fashion brands and products catered to a broad base of consumers

We adopt a multi-brand strategy, and offer apparel, footwear and accessories (including bags, wallets, socks and caps) featuring multiple categories covering casual wear, sports and leisure streetwear and luxury leatherware catering to the diversified needs, tastes and preferences of consumers of different ages and gender for different occasions. We manage a portfolio of five major apparel and footwear brands, namely “Clarks”, “Bossini”, “bossini.X”, “LNG”, and “Amedeo Testoni” (including its diffusion line “i29”).

“Clarks” is a well-known British footwear brand and offers fashion and casual footwear for both gender and all age groups worldwide with a focus on the UK and the US markets. Under “Bossini”, we primarily offer casual wear such as coats and jackets, T-shirts, dresses, pants, jeans, underwear and socks suitable for women and men at all ages as well as kids at competitive prices. Under “bossini.X”, we mainly offer middle-end streetwear with sports element catering to the tastes and preferences of young generations in the PRC. “LNG” is a streetwear brand with ACGN elements which from time to time collaborates with youthful animation and fashion brands to launch crossover products. “Amedeo Testoni” (including its diffusion line “i29”), as our high-end luxury fashion brand, offers a wide selection of leather footwear and leather accessories such as wallet and handbags, suitable for different occasion including leisure and business.

BUSINESS

Omni-channel capability

As at 31 December 2022, we had 535 directly-operated stores and 3,256 wholesale customers for our “Clarks” footwear operation; and 241 directly-operated stores, 93 distributors and 31 partnership stores for our Other Brands. We also established presence on over ten online sales platforms, including our online flagship store and other e-commerce and social media platforms. Geographical coverage of our sales channel primarily includes the UK and the US for our “Clarks” operation and the PRC and Hong Kong for our Other Brands. Combining an extensive network of offline stores with increasing presence on the PRC’s major e-commerce and social media platforms, we have an omni-channel retail network that provides comprehensive consumer experience.

We strategically roll out directly-operated stores in carefully selected locations with consumption potential from consumers with purchasing power, such as first-tier and second-tier cities in the PRC. We also make use of the distribution channels of our distributors and wholesale customers, which include e-commerce and t-commerce platform operators, and adopt a partnership model to diversify our customer base, and to expand into new geographical markets in an asset-light and cost-effective manner. In addition, we have devoted significant efforts to strengthen our online capabilities in recent years. We have an in-house e-commerce team with 200 members as at 31 December 2022 to oversee our online sales strategies and have established a strong presence on the PRC’s major e-commerce platforms, such as T-mall, JD.com and Taobao, and social media platforms, such as Xiaohongshu and Douyin.

Well-equipped to capture the growth opportunities in the policy-driven sports industry in the PRC

In recent years, with the support of favourable government policies in promoting sports as well as the increase in awareness for public health in the PRC, there has been a growing demand from the public for sports venues, facilities and sports coaching and training services. Leveraging on our diversified sports destinations portfolio for sports activities and sports training as well as our reputation in the sports industry in the PRC, we believe that we are well-equipped to capture the growth opportunities in the policy-driven sports industry in the PRC.

Wide spectrum of professional and accessible sports venues and facilities for sports activities and sports training

As at the Latest Practicable Date, we managed and operated (i) nine sports parks and sports centres under the brand of “Li Ning Sports Park” (李寧體育園) in different parts of the PRC, and (ii) eleven ice-skating rinks under the brand of “All Star Ice Skating Club” (全明星滑冰俱樂部) in some of the first-tier and second-tier cities in the PRC. Our sports destinations are well-equipped with a wide array of facilities to host various sports events. We also provide coaching and training services as well as other ancillary services to facilitate the sports experience of the public and our consumers in the PRC.

BUSINESS

Facilities of our sports parks and sports centres include, amongst others, sports venues for a variety of ball games including football, basketball, badminton, table tennis, volleyball, and squash, indoor and outdoor swimming pools, fitness centres, and multi-functional sports arenas. Our ice-skating rinks are well-equipped with a range of ice skating facilities and equipment suitable for various types of ice skating.

To promote sports and encourage participation in sports activities among the local neighbourhood communities, we offer a wide variety of sports coaching and training courses delivered by professional coaches and trainers for different age groups and people at different skill levels at our sports destinations. We organise and hold, either by ourselves or by renting our sports venues and facilities to other sports organisations, a range of sports-related competitions and events for professional sports athletes and the general public in our sports destinations from time to time. In particular, our “All Star Ice Skating Club” (全明星滑冰俱樂部) was authorised by the Ice Skating Institute Asia to hold the All-Star Asian Figure Skating Invitational (全明星亞洲花樣滑冰邀請賽) which is a national-level junior ice skating competition in the PRC.

To facilitate the overall sports experiences, we offer ancillary services such as provision and sales of sports-related apparel, footwear and equipment and food by introducing retail stores and restaurants to our sports destinations. In particular, we have retail stores offering a wide selection of ice skating-related consumables under various brands targeting at youngsters in our ice-skating rinks.

Well-established reputation in the sports industry

Our Directors believe that we enjoy well-established reputation in the sports industry. In particular, our senior management team has long-established presence in the sports industry.

Mr. Li Ning, our executive Director, chairman of our Board and chief executive officer is recognised as one of the most outstanding athletes in the 20th century. In the 6th World Cup Gymnastics Competition in 1982, Mr. Li Ning unprecedentedly won six gold medals in men’s artistic gymnastics events and was named the “Prince of Gymnastics” (“體操王子”) in the PRC. In the 23rd Olympic Games held in Los Angeles in 1984, Mr. Li Ning won three gold, two silver and one bronze medals, making him the athlete winning the most medals in the 23rd Olympic Games. In 1999, Mr. Li Ning was voted as one of the “World’s Most Excellent Athletes in the 20th Century” by the World Sports Correspondent Association. Mr. Li Ning is the founder of the LI-NING brand. Besides, Mr. Li Chunyang, an executive Director is also recognised as one of the most outstanding athletes in the PRC, and won the World Gymnastics Championships in 1989 and 1991.

We have accumulated extensive sports-related resources through our management and operation of sports parks and sports centres, ice-skating rinks, e-sports clubs, and multiple apparel and footwear brands featuring sports element. We have established relationships with industry players in the sports ecosystems through various means including (i) our operation of “3+1 Basketball League”, a street basketball tournament founded by Li Ning Sports, (ii) collaborations with CBA, the highest-ranking professional basketball league in the PRC, and (iii) our investments in different sports-related businesses including (a) Shanghai Double Happiness Co., Ltd, a company principally engaged in sales of table tennis and badminton equipment under its own brand “紅雙喜 (Double Happiness)”, a world-renowned sports brand, (b) Li Ning Co, one of the leading sports brand companies in the PRC, mainly providing sporting goods under the LI-NING brand, and (c) Jump 360 Holdings Limited, an operator of one of the largest indoor trampoline parks in Asia.

BUSINESS

We believe that abovementioned accomplishments have helped us strengthen our reputation in the sports industry, and create synergies and commercial opportunities for our multi-brand apparel and footwear business and sports experience business going forward.

Visionary and experienced management team

Our management team is formed by seasoned professionals with experience and knowledge of the apparel and footwear industry and the PRC sports industry. Our management team is led by our three executive Directors, namely Mr. Li Ning, Mr. Li Chunyang and Mr. Li Qilin, and our Chief Financial Officer, namely Mr. Cheung Chi, who provide us with insights which enhance our overall business management and operation, and enable us to better understand market trends, unmet demand and consumer preferences, and steward us towards the continued growth of our business.

Mr. Li Ning, our executive Director, chairman of our Board and chief executive officer, being the helm of our Group, is primarily responsible for devising our strategic blueprint and directing our business strategies to bring our mission and vision to reality. Mr. Li holds a bachelor’s degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), an honorary doctorate in technology from Loughborough University in the United Kingdom and an honorary degree of doctor of humanities from The Hong Kong Polytechnic University. Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

Mr. Li Chunyang, our executive Director, is primarily responsible for overseeing the overall management, business strategic development and general operations of our Group. Mr. Li holds a bachelor’s degree in finance from Peking University and had participated in the management of our Group since June 2010.

Mr. Li Qilin, our executive Director, is primarily responsible for overseeing the overall management, business strategic development and general operations of our Group. Mr. Li has considerable experience in financial services industry and was an analyst of Persistent Asset Management Limited during the period from January 2010 to July 2013. Mr. Li first joined our Group as a non-executive Director in June 2013 and was re-designated to an executive Director to participate in the management of our Group since November 2015.

Mr. Cheung Chi, our chief financial officer, is primarily responsible for the financial management of our Group, planning and supervision of our Group’s financing activities, and the management of our Group’s business. Mr. Cheung holds a Degree of Bachelor of Arts (Hons) in Accountancy from the City University of Hong Kong and a Degree of Master of Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has over 25 years of experience in financial management, corporate finance and administrative management.

BUSINESS

We believe that our management team and operation has been essential to the success of our business and the determination and implementation of our business strategies. For further details of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this document.

OUR BUSINESS STRATEGIES

We intend to further develop our multi-brand apparel and footwear business, together with the sports experience business, to grasp the market consumption opportunities. We aim to achieve our goal by pursuing the following business strategies:

Expand our apparel and footwear brand portfolio and product categories through internal development and acquisitions

According to the Frost & Sullivan Report, the global fashion industry recorded continuous growth in previous years, and is expected to continue to grow in foreseeable future. Retail sales of the global fashion industry grew from US\$1,456.0 billion in 2016 to US\$1,570.1 billion in 2021 at a CAGR of 1.5%, and is expected to further increase to US\$1,750.2 billion in 2026 at a CAGR of 2.2%.

The fashion industry is driven by, amongst others, the rise of new generation who focus on self-expression and individuality, and diversification of consumer demand where consumers in developed areas prefer more high-end and personalised products, whereas consumers in less-developed areas tend to be more price-sensitive. In an increasingly bifurcated market, fashion brands with multi-brand strategy and a diversified product portfolio to meet the demands of various consumer groups can benefit from this trend and capture the market potentials. We intend to expand our apparel and footwear brand portfolio and products categories to capture the consumption potentials in the global fashion market, and reinforce the sustainability of our multi-brand apparel and footwear business.

Through internal development

We are devoted to nurture growth in businesses acquired by us. After our acquisition of “Bossini”, with our efforts in rebranding and creating a fresh new image for this brand, we created “bossini.X”, a streetwear brand with sports element targeting at youngsters and millennials in the PRC market. Going forward, we will continue to rebrand “Bossini” by adjusting its production direction, allocating more resources on products development, and optimising and diversifying its product portfolio. We will develop “bossini.X” with a focus on the PRC market, and leverage on its the fresh new image to reshape consumers’ perception towards “Bossini” to drive the growth of both brands in the long run. As for “LNG”, after our acquisition of the “LNG” trademark, we developed it into a streetwear brand with ACGN elements and we will continue our current overall design direction. Apart from diversifying our existing products series, we intend to launch more products series with e-sports and ACGN elements to create synergy with our e-sports club business, including collaborating with animation and fashion brands to launch crossover products series to cater to the tastes and preferences of millennials in the PRC.

BUSINESS

Through acquisitions

We expanded and diversified our brand portfolio by acquiring Bossini (the owner of “Bossini”, a well-known casual wear brand in Hong Kong and the PRC) in July 2020 and Viva China Premium Brands (the owner of “Amedeo Testoni”, a luxury leatherware brand based in Italy) in January 2022. In July 2022, we acquired a majority stake in the holding company of the Clark Group (being the operator of “Clarks”, a well-known British footwear brand with history of almost two centuries) which further diversified and expanded our brand and product portfolio to fashion and casual footwear. According to Frost & Sullivan, as the PRC footwear market outperformed the global market and other more-developed markets from 2016 to 2021, many foreign brands seek to tap into the PRC footwear market through collaboration with experienced local brand operators to develop a localised branding and marketing strategy. With our experience in the PRC apparel and footwear market, we believe we can help “Clarks” to tap into the PRC market and capture the business potential.

Since 2021, the management of the Clark Group has reviewed its business direction and implemented certain cost control measures, coupled with the recovery of sales activities after COVID-19, the financial performance of the Clark Group has been improving. In the meantime, in the first half of 2022, our Directors also noted that many countries, including the UK and the US, had gradually removed pandemic-related restrictive measures. Our Directors were of the view that the commencement of the removal or relaxation of such restrictive measures would be of benefit to the recovery of the global retail business. In view of the above and in order to further increase our indirect equity interest in the Clark Group, we acquired the remaining 49% of the issued share capital of LionRock, being the holding company of 51% equity interests in the Clark Group, from LionRock L.P. at a consideration of GBP110,000,000 in January 2023. Following completion of the Second Clark Acquisition, LionRock has become an indirect wholly-owned subsidiary of our Company and the results of LionRock (including the Clark Group) will continue to be consolidated into the financial statements of our Group.

We will continue to look for quality acquisition targets to enrich our brand portfolio and increase our market coverage, thereby to enhance our overall business sustainability. We did not have any specific acquisition targets, and had not entered into any definitive agreements with any potential targets as at the Latest Practicable Date. The timing of any potential acquisition would depend on the identification of a suitable acquisition target and we do not have any expected timeframe for potential acquisition until a suitable opportunity comes along. When selecting an acquisition target, we would consider, amongst others, their brands recognition, their product portfolio and/or categories, their market coverage, their consumer base, net asset value, valuation, and would focus on selecting a target which could enrich our brand portfolio, increase our market coverage and create synergy with our existing brands.

BUSINESS

Expand our sales networks and marketing channels of our multi-brand apparel and footwear business as well as optimise our operation efficiency

We believe that multi-dimensional marketing channels, coupled with well-managed operation, is essential to achieve our expansion plan for sales networks and our multi-brand apparel and footwear business, and will lay the foundations for our future growth. We intend to deepen the market penetration of our apparel and footwear brands by expanding our sales networks and marketing channels, as well as to optimise our operation efficiency so as to coincide with the expected growth in our scale of business operation in future.

According to the Frost & Sullivan Report, whilst offline sales channel remains as the major sales channel of fashion products, online sales channel is growing more rapidly and is expected to gradually capture the market share from offline sales. Therefore, omni-channel capability is essential for apparel and footwear brands to capture sales opportunity in the market. Besides, new generation of consumers are more social media savvy than their preceding generations, making their consumption behaviors more susceptible to social media content and online community. The integration of digital platforms into sales and marketing strategy becomes imperative for apparel and footwear brands.

Similar with the industry norm, during the Track Record Period, we focused on our offline sales which accounted for a majority of our revenue from sales of apparel and footwear and recorded an increase in revenue from online sales primarily due to our efforts in developing our online sales channel. As our short-to-mid-term strategy, we intend to maintain offline sales channel as our major sales channel and further expand our online sales channel on the other hand.

Strategies for offline sales channel

During the Track Record Period, we focused on the sales at our directly-operated stores and complemented our offline sales channel by collaborating with our retail partners from different jurisdictions. Going forward, we intend to maintain our existing offline distribution model and to expand our sales networks to make our products more accessible to our target consumers while reaching a broader consumer base. We will identify attractive store opening opportunities to address untapped consumer demand in both existing and new markets, and expand the geographic coverage of our directly-operated stores in places with consumption potential. In addition to opening new stores, we will continue reviewing the performance of our directly-operated stores to optimise our operation efficiency by upgrading existing stores and closing underperforming stores. We will focus on upgrading our existing stores that are located in premises with proven foot traffic and high sales potential.

BUSINESS

Whilst directly-operated stores will remain as our primarily focus, we will continue our collaboration with our retail partners to cover larger domestic and overseas apparel and footwear consumer markets. In particular, we will continue reviewing our return from our collaboration with our retail partners, deepen our collaboration with those delivering outstanding sales performance and terminate business relationship with underperforming ones. We will also seek business opportunities with suitable retail partners who have high sales potentials in existing and new markets.

Strategies for online sales channel

We intend to further expand the appeal of our apparel and footwear brands via social media and marketing. In February 2021, we set up an in-house e-commerce team to manage and supervise our online sales and marketing functions which comprised of 200 members as at 31 December 2022. In addition to managing the daily operation of our online sales channel, our e-commerce team also conduct analysis on our online sales performance periodically in order to formulate more efficient product planning and marketing strategies. In addition to establishing our presence on conventional third-party e-commerce platforms, such as T-mall and Taobao, we have also developed business partnerships with a number of KOLs and live-streamers on social media platforms (such as Xiaohongshu and Douyin) to promote our brands recognition and sales through word-of-mouth marketing campaigns during the Track Record Period. We intend to continue such marketing avenues to broaden our consumer base while reinforcing our current consumer base as a foundation for our brands. In particular, we will continue to expand our collaboration with KOLs and live-streamers to strengthen our presence on social media platforms. Future marketing endeavours may include other forms of advertising, including digital and traditional advertising.

Synergy with the business of the Clark Group

We completed the First Clark Acquisition in July 2022 and the Second Clark Acquisition in January 2023. “Clarks” is a well-known international footwear brand with almost 200 years of history and worldwide presence. With a focus on the UK and the US markets, “Clarks” ranked the 1st in the fashion and casual footwear market in the UK with a market share of 14.1%, and the 7th in the US with a market share of 1.8% according to the Frost & Sullivan Report. As at 31 December 2022, the Clark Group had 535 directly-operated stores located primarily located in the UK, the ROI and the US, 3,256 wholesale customers primarily situated in EMEA and the US, and various online sales platforms, such as its flagship online store and other e-commerce platforms operated by its wholesale customers. We believe that given the similar nature of our multi-brand apparel and footwear business and the Clark Group’s footwear business, we will achieve synergy by integrating the sales network of the two businesses to deepen and expand our customer base and geographical reach to other major fashion markets which we had not been operated in before, including but not limited to, the US, the UK and Western Europe.

BUSINESS

Going forward, we intend to increase “Clarks” store efficiency by consolidating its directly-operated stores network at strategic locations and to improve its consumer experience by carrying out upgrades at its physical stores, such as investing in visual merchandising props and introducing mobile payment. In addition, we plan to accelerate the development of “Clarks” e-commerce by improving the user experience of its flagship online store, such as to improve the site speed and streamline the checkout procedures. In addition, we will continue exploring opportunities to expand and diversify “Clarks” online stores to different third-party e-commerce platforms for a broader customer reach. We will focus on reinforcing “Clarks” presence in the UK and the US, and to also seek opportunities to tap into the Asia market, in particular the PRC market, by leveraging on the networks and experience of our Group and our management. In particular, we intend to use popular marketing tools, including but not limited to influencer marketing, to promote “Clarks” products, and set up online stores on popular e-commerce platforms to sell “Clarks” products.

Enhance our sports destinations business by diversifying our sports coaching and training services

It is our mission to advocate healthy lifestyle and promote sports culture among the general public in the PRC. According to Frost & Sullivan, sports-related industry in the PRC had experienced significant growth from 2016 to 2021 and will continue to expand between 2022 and 2026 as sports becomes more popular among the general public with the support of favourable government policies, increasing public awareness on health and media coverage of international sports events hosted by the PRC in recent years.

Over years of operation, we have obtained solid experience in the management and operation of sports venues. Members of our senior management, such as Mr. Li Ning and Mr. Li Chunyang, are also recognised as one of the most outstanding athletes in the PRC. We also managed and operated sports parks, sports centres and ice-skating rinks that are equipped with comprehensive sports facilities and equipment to support full range of sports activities, including football, basketball, badminton, table tennis, volleyball, squash, swimming, fitness training, gymnastic, archery, ice-skating and ice hockey.

Leveraging off our reputation and experience in the sports venues management industry as well as our diverse sports destinations portfolio, we intend to further diversify the sports coaching and training services that we offer at our sports destinations in order to capture the market potential of the sports industry and fulfil our mission in advocating healthy lifestyle and sports among the general public.

BUSINESS

Develop our e-sports business and create synergy effects together with our “LNG” brand

According to the Frost & Sullivan Report, the PRC e-sports industry has enjoyed a rapid growth from 2016 to 2021, and will continue to grow in foreseeable futures. The market size of the PRC e-sports club and e-sports influencer commercialisation industry in terms of revenue grew significantly from US\$0.5 billion in 2016 to US\$2.2 billion in 2021 at a CAGR of 36.9% primarily due to the emergence and increasing popularity of e-sports as a new form of sports, and is expected to increase to US\$6.2 billion in 2026 at a CAGR of 22.8%. The PRC e-sports industry is supported by favourable government policies. Several cities have issued policies aiming to make themselves a regional or even a national centre for e-sports. For example, the Beijing government has issued “Medium and Long-term Plan for Beijing to Promote the Construction of National Cultural Center (2019-2035)” to position itself as the capital of e-sports. With the world’s largest e-sports market in terms of revenue, the PRC has successfully cultivated a full industry chain from e-sports game development, tournament operation, content production and distribution. This helps provide a solid foundation and supporting system for the PRC e-sports market to flourish in foreseeable future.

As such, we intend to further develop our e-sports business to capture the opportunities within the industry, while leveraging off our “LNG” brand to drive growth for both businesses. All our e-sports clubs are named after LNG, a streetwear label with ACGN elements. We intend to broaden the appeal of our “LNG” brand as well as our “LNG”-labelled e-sports clubs among e-sports audiences by (i) marketing our e-sports club through both digital and traditional advertising, (ii) enhancing the professional capabilities of our “LNG Esports” and other e-sports clubs. Our endeavours in enhancing the performance of our e-sports clubs at e-sports tournaments mainly includes (a) optimisation of the current training mode for our e-sports athletes, (b) engagement of professional trainers and instructors, and (c) introduction of top e-sports athletes into our e-sports club subject to the team structure of our e-sports clubs and the performance of the relevant e-sports athlete and (iii) launch crossover products with our e-sports clubs to fuel up the growth of our “LNG” brand. Further, we intend to further explore the business partnership opportunities within the gaming ecosystem to obtain more sponsorships.

OUR ACQUISITIONS

It is our Group’s long term strategy to become a multi-brand operator in the lifestyle consumables and sports industries, and we are committed to integrating sports into lifestyle trends and leisure consumption. Since 2010, we have been engaged in the sports-related business and expanded into sports and lifestyle consumables in 2019. After we bought “Snake Esports” e-sports club and “LNG” fashion brand trademark in 2019, we renamed such e-sports club as “LNG Esports” and transformed “LNG” into a streetwear brand with ACGN elements to appeal to e-sports fans and millennials. In 2020, to further expand our apparel and footwear business, we acquired “Bossini” (a well-known casual wear brand in Hong Kong and the PRC) and rebranded it by creating “bossini.X”, a streetwear label with sports elements. By adopting the multi-brand strategy for sports and lifestyle consumables, we have gradually developed two main business segments, namely (i) multi-brand apparel and footwear and (ii) sports experience. As we continue to develop and expand our business, we acquired other lifestyle consumables brands, including “Amedeo Testoni” and “Clarks”.

BUSINESS

Details of our business plans and strategies for the “LNG” brand, Bossini (owner of “Bossini”), Viva China Premium Brands (owner of “Amedeo Testoni”) and Clark (owner of “Clarks”), the synergies brought by these acquisitions and our operation management over these companies are as follows:

Business plans and strategies

LNG

We embarked on our apparel and footwear business through the acquisition of the trademark of a fashion brand “LNG” from LN Group at the consideration of RMB1,356,800 (inclusive of tax) in late 2019. Since acquiring the “LNG” trademark, which was originally designed by LN Group, we have been developing and operating the brand independently without any sharing of personnel, resources or facilities with LN Group other than the collaboration of cross-over products with LN Group’s “LI-NING” and the sales of our “LNG” products to a member of LN Group which is one of our distributors. We also connect the name and style of “LNG” with our “LNG Esports” e-sports club to create synergies between the two businesses.

Prior to such acquisition, we had already hired a team to engage in certain preparatory work relating to e-commerce which was expected to be one of the major distribution channels for “LNG” in 2020. By March 2020, we had 27 staff for “LNG” covering most functions, including design, procurement, logistics and sales. Most of our key personnel for “LNG” have at least 10 years’ experience in retail and consumable industry. In 2020, we primarily distributed our “LNG” products through online sales channels and distributors. With the increasing brand recognition, we started to set up directly-operated stores and partnership stores for “LNG” in early 2021 and expanded our “LNG” workforce to 98 members by the end of the same year. With our continuous efforts, our revenue from “LNG” recorded a significant year-to-year increase by HK\$72.6 million or 404.0% in FY2021, and recorded a slight year-to-year decrease in FY2022 by HK\$6.5 million or 7.1% mainly due to the resurgence of COVID-19.

Bossini

“Bossini” is a well-known casual wear brand in the PRC and Hong Kong with competitive pricing. After our acquisition of Bossini, we are devoted in rebranding its image and created a new brand “bossini.X” to bring a new change for this company. “bossini.X” is a streetwear brand with sports element targeting at youngsters and millennials in the PRC market which help us to expand to the middle-end streetwear market. Going forward, we will continue to rebrand “Bossini” by adjusting its product direction, allocating more resources on product development, and optimising and diversifying its product portfolio. In addition, we will leverage on the new image of “bossini.X” to reshape consumers’ perception towards “Bossini” to drive the growth of both brands in the long run. In terms of geographical market, we plan to focus on the development in the PRC through different distribution channels, including directly-operated stores, distributors, partnership stores and online sales channels.

BUSINESS

Before our acquisition of Bossini in July 2020, Bossini recorded a revenue of HK\$1,488 million and a loss of HK\$139 million for the financial year ended 30 June 2019 and a revenue of HK\$1,092 million and a loss of HK\$368 million for the financial year ended 30 June 2020. After Bossini was taken over by our Group, we managed to reduce its loss by 57.9% to HK\$155 million for the financial year ended 30 June 2021 even through Bossini recorded a decrease in revenue by 22.3% to HK\$848 million for the same period due to the resurgence of COVID-19. The decrease in loss was primarily resulted from our effective cost control measures, including reduction of labour costs through streamlining various operation units, closure of under-performing directly-operated stores and better management of marketing expenses. With our continuous efforts in revamping and developing its business, we helped Bossini to further reduced its loss from HK\$251.0 million for FY2021 by 47.8% to HK\$132.4 million for FY2022, and we believe the business operation and financial performance of Bossini will continue to improve gradually.

Amedeo Testoni

Following completion of our acquisition of Viva China Premium Brands, we conducted a review over its business and various operation units. Going forward, we plan to diversify its product portfolio by expanding women’s collection. In terms of geographical markets, we plan to focus on the Asia markets, especially the PRC, covering both offline and online sales channels. In addition, as part of our cost control measures, we will restructure the corporate organisation of Viva China Premium Brands to combine certain administrative functions with our existing units to reduce labour costs. We will also relocate some back office functions from Italy to Hong Kong.

Clarks

Following completion of the First Clark Acquisition in July 2022, we conducted a review on the principal business and the financial position of the Clark Group, and discussed with the management of the Clark Group on the appropriate steps to take for developing its business under the following directions: (i) increasing cost and operational efficiency; (ii) redefining customer segmentation and strengthening brand building; (iii) reviewing distribution strategies; (iv) restructuring the corporate organisation; and (v) increasing the market presence in Asia, in particular the PRC.

Since 2021, we had been participating in the management and operation of the Clark Group gradually through attending regular operation and board meetings of the Clark Group and providing our directions on its business operation. With our cost control measures and directions, the administrative expenses of the Clark Group decreased by £13.7 million (HK\$141.1 million) or 17.5% from £78.5 million (HK\$808.6 million) for the 22 weeks period ended 3 July 2021 to £64.8 million (HK\$667.4 million) for the 22 weeks period ended 2 July 2022 which was attributable to, amongst others, the decrease in (i) salary expense resulting from reduction in severance payments; (ii) foreign exchange differences resulting from the fluctuations of various foreign currencies against GBP; and (iii) depreciation resulting from the early termination of lease of an office in the US. As a result of the foregoing, coupled with the recovery of sales activities after COVID-19, the profit from continuing operations of the Clark Group increased from £18.7 million (HK\$192.6 million) for the 22 weeks period ended 3 July 2021 to £40.4 million (HK\$416.1 million) for the 22 weeks period ended 2 July 2022.

BUSINESS

Over the past three years, less than 10% of the total revenue of the Clark Group was attributable to the Asia Pacific market. We believe that the Clark Group has a growth potential in the Asia market, in particular, the PRC market, by increasing the use of online platforms and leveraging on the expertise, distribution channels and supply chain of our Group. In particular, we intend to use popular marketing tools including but not limited to influencer marketing to promote Clark’s products, and set up stores on popular online sale platforms to sell Clark’s products.

Other than expanding to the PRC market, we also aim to deepen the Clark Group’s penetration in its existing major markets, being the UK and the US. For the UK market, we plan to reshuffle the product mix to recover the market share in women’s footwear and place emphasis on athleisure footwear. For the US market, we plan to shift to a more premium product mix and to focus on growing other categories, such as kids and accessories. In addition, we aim to open up new wholesale channels and further promote its e-commerce functions.

Synergies

We believe the acquisitions will bring upon the following synergies to our Group and the acquired companies:

Synergy within the multi-brand apparel and footwear business

Our Board believes that given the similar nature of business of the acquired companies, namely apparel and/or footwear business, the acquisitions will achieve synergy among these businesses within our multi-brand apparel and footwear segment in terms of marketing, supply chains solutions and distribution channels, deepen our market penetration at local markets and further extend our market territories worldwide.

In terms of sales channel, our e-commerce team has taken over the PRC online sales management of “Clarks” and “Amedeo Testoni”. In particular, we have expanded the PRC online sales channel of “Clarks” from conventional third-party e-commerce platforms to other social media platforms, such as Xiaohongshu and Douyin, to enhance its brand recognition and online sales in the PRC, and are in the process of developing the PRC online sales channel for “Amedeo Testoni”. Furthermore, since our brands have different geographical focus, such as “LNG” and “bossini.X” for the PRC, “Bossini” for Hong Kong, “Clarks” for the UK and the US, and “Amedeo Testoni” for Europe, Hong Kong, Taiwan, Japan and South Korea, the experience and networks in different geographical regions can be shared among our brands to facilitate future expansion to such regions.

In terms of supply chain management, our procurement team will consolidate and centralise the production process of our various brands which help increase our bargaining power with OEM suppliers to reduce our costs of production. In addition, our shoe factory is in the progress of developing prototypes for certain footwear products for the Clark Group for future production. Going forward, it is expected that the consolidation of our supply chain will help us achieve a competitive pricing and improve the quality of our apparel and footwear products. In addition, the sharing of marketing and administrative resources, such as e-commerce, human resources, finance and information technology, will help reduce our labour costs and improve our operation efficiency.

BUSINESS

Sharing of expertise and experience of Directors and the management of our Company

Members of our Board, such as Mr. Li Ning and Mr. Victor Herrero, as well as the key members of our operation team, such as Mr. Cheung Chi, for our multi-brand apparel and footwear business have extensive experience in various aspects of the apparel, footwear and consumables industry which can be shared with the board of the acquired companies. Furthermore, leveraging on the reputation and network of Mr. Li Ning in the lifestyle consumables and sports industries, we may open up various expansion and business collaborations opportunities for these acquired companies.

Synergies between our sports team and event management business and the acquired business

We organise the commercial operation of sports events in the PRC under our sports team and event management business segment. For example, we may arrange our acquired fashion brand to act as the sponsor of the sports events managed by us. With the participation of these well-established fashion brands, it could act as a catalyst to attract other more renowned brands to participate in sponsorships. Such sponsorships could potentially enhance the profiles of the events and the participating brands, and further strengthen our resources and capability in the operation of the sports team and event management business.

Synergies between our sports destination development business and the acquired business

As at the Latest Practicable Date, we operated nine sports parks and sports centres and eleven ice-skating rinks under our sports destination development business segment. There are shops selling different sports lifestyle consumables (e.g. casual sports footwear, apparel and accessories consumables) under different brand names in these sports destinations. By acquiring Bossini, Viva China Premium Brands and Clark which are principally engaged in the sales of apparel and/or footwear, we are able to set up stores of our own brands in these sports destinations. We anticipate that such business strategy could (i) attract more customers and increase the visitors traffic of these sports destinations; (ii) improve the commercial image of these sports destinations by association with these well-established brands; and (iii) increase the rental income from different shops at our sports destinations by reason of the increase in foot traffic and improvement in branding.

Operation management

In order to exercise our control over Bossini, Viva China Premium Brands and Clark, following completion of the acquisitions, our management have been participating in the formulation of business strategies, attending weekly and monthly operation meetings of these companies and are involved in their approval procedures for the material contracts and payments. In addition, we had appointed directors to the boards of Bossini, Viva China Premium Brands and Clark to act as our representatives in overseeing the overall operation and took a leading role in selecting suitable candidates for senior management positions of these companies, such as chief executive officer, chief financial officer, head of the sourcing department and quality control department, costing manager, financial analysts and other executives and managers.

BUSINESS

OUR BUSINESS MODEL

We operate two business segments, being (i) multi-brand apparel and footwear business segment which primarily comprises design and development, branding and sale of sports and lifestyle apparel and footwear under multiple brands, and (ii) sports experience segment which comprises (a) sports destination development, and (b) sports team and event management.

We have been engaged in sports related business since 2010 and embarked on our apparel and footwear business through the acquisition of the trademark of a fashion brand “LNG” from the LN Group at the consideration of RMB1,356,800 (inclusive of tax) in late 2019. Since we acquired the “LNG” trademark, which was originally designed by the LN Group, we re-designed the logo and developed the brand by connecting its name and style with our “LNG Esports” e-sports club to create synergies between the businesses. Other than the collaboration of cross-over products with “LI-NING” and the sales of our “LNG” products to a member of LN Group which is one of our distributors, we have been developing and operating “LNG” brand independently without any sharing of personnel, resources or facilities with LN Group since it was acquired by us. We further expanded and diversified our business by acquiring Bossini (the owner of “Bossini”, a well-known casual wear brand in Hong Kong and the PRC) in July 2020, Viva China Premium Brands (the owner of “Amedeo Testoni”, a luxury leatherware brand based in the Italy) in January 2022, and the Clark Group (the owner of “Clarks”, a well-known British footwear brand with history of almost two centuries) in July 2022. After our acquisition of Bossini, as part of the rebranding exercise, we created a new brand “bossini.X” which is positioned as a streetwear label targeting at youngsters and millennials in the PRC.

Under our sports destination development business, we operate sports parks and sports centres in the PRC under the brand of “Li Ning Sports Park”(李寧體育園) and ice-skating rinks under the brand of “All Star Ice Skating Club”(全明星滑冰俱樂部) in the PRC. Under our sports team and event management business, we provide marketing services to sponsors at sports events in the PRC and manage e-sports clubs such as “LNG Esports”, which is one of the major e-sports clubs competing in the League of Legends Pro League as at the Latest Practicable Date.

BUSINESS

The table below sets forth a breakdown of our revenue by business segment for the periods indicated:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Multi-brand apparel and footwear (Note 1)	438,994	53.6	851,222	61.6	6,399,546	92.7
Sports experience						
– Sports destination development (Note 2)	169,153	20.7	269,365	19.5	244,076	3.5
– Sports team and event management (Note 3)	210,889	25.7	261,050	18.9	256,768	3.8
Sub-total of sports experience:	380,042	46.4	530,415	38.4	500,844	7.3
Total	819,036	100.0	1,381,637	100.0	6,900,390	100.0

Notes:

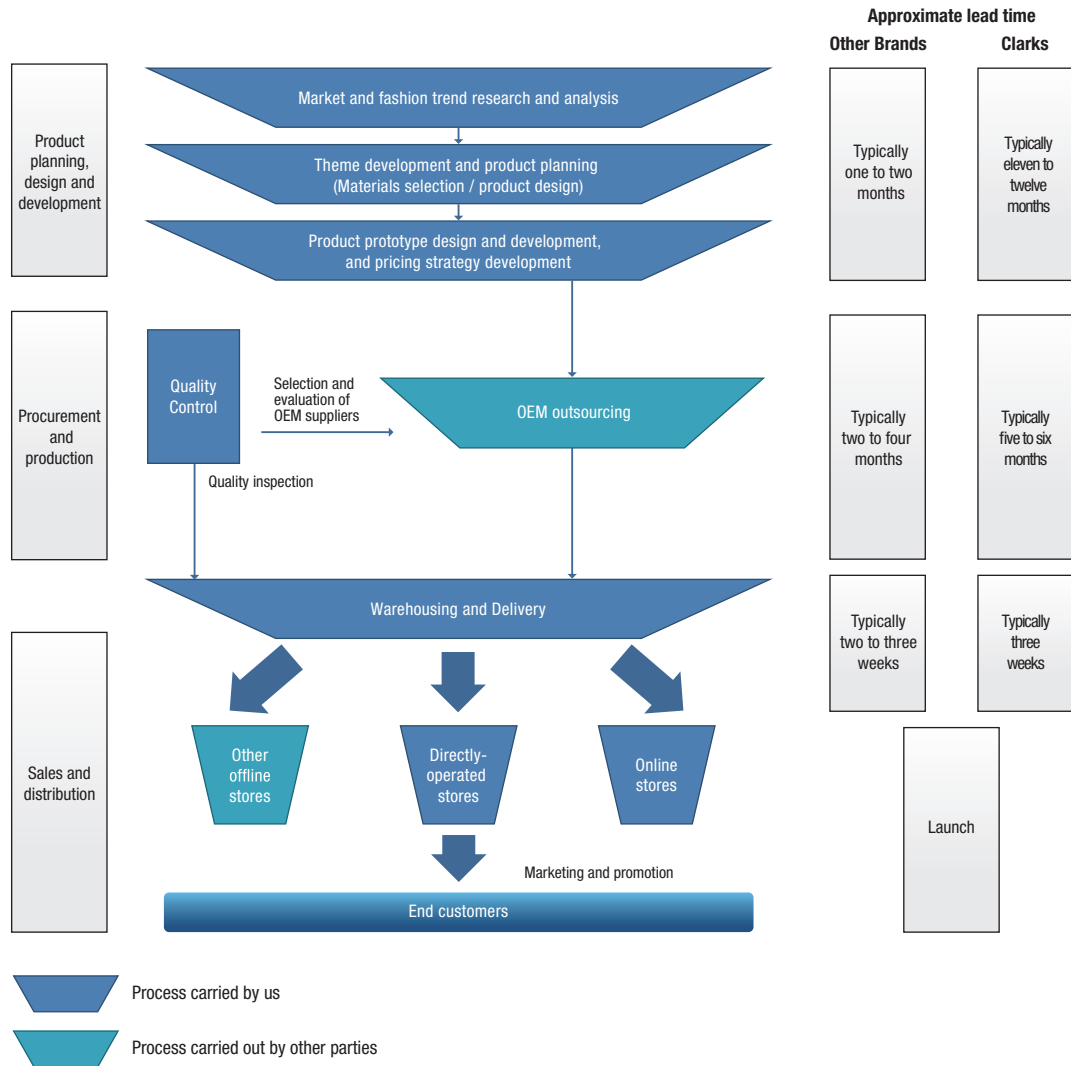
- Our apparel and footwear brands mainly include “Clarks”, “Bossini”, “bossini.X”, “LNG” and “Amedeo Testoni” during the Track Record Period. We acquired a majority stake in Bossini in July 2020 and our revenue attributable to “Bossini” (including “bossini.X”) was HK\$421.0 million, HK\$702.5 million and HK\$593.5 million, representing 51.4%, 50.8% and 8.6% of our total revenue, in FY2020, FY2021 and FY2022, respectively. We completed the First Clark Acquisition in July 2022 and our revenue attributable to “Clarks” in FY2022 was HK\$5,386.9 million, representing 78.1% of our total revenue for the year.
- Sports destination development mainly comprises management and operation of sports parks, sports centres and ice-skating rinks.
- Sports team and event management encompasses management and operation of e-sports clubs, coordination of sports events and sports-related marketing services.

OUR MULTI-BRAND APPAREL AND FOOTWEAR BUSINESS

We are principally engaged in design and development, branding and sales of sports and lifestyle apparel and footwear. We adopt a multi-brand strategy and manage five major apparel and footwear fashion brands, namely “Clarks”, “Bossini”, “bossini.X”, “LNG” and “Amedeo Testoni”. We focus on the design and development of product and outsource most of the manufacturing process to our selected OEM suppliers. However, to reinforce our footwear design, research and development capability, we established a shoe factory in the PRC in 2021. Our shoe factory produces casual trainers and vulcanised shoes for our self-owned brands. It also provides footwear OEM services to LN Group and other footwear manufacturers in order to better utilise our excessive production capacity. We have an extensive sales network covering both online channels and offline channels, and make use of different distribution models, such as distributorship and partnership, to distribute our products in a cost-efficient manner.

BUSINESS

The following diagram illustrates our business model for our multi-brand apparel and footwear business:








BUSINESS

Our Products and Services

Our Brand and Product Portfolio

We are a multi-brand operator and offer a wide range of apparel, footwear and accessories for women, men and kids under our self-owned brands, namely “Clarks”, “Bossini”, “bossini.X”, “LNG” and “Amedeo Testoni”. Our brands collectively cover different spectrum of the apparel and footwear segments and cater to customers of different age groups and gender with various appetite. Each of our brands is managed by a separate business unit which is responsible for its brand positioning, product planning, design and development, pricing, procurement process and marketing strategy, under the supervision from our core management.

The table below summarises the brands operated by us during the Track Record Period in terms of (i) product offering, (ii) target market/style, (iii) target customer group, (iv) price range, (v) major geographical coverage, and (vi) distribution channels:

	“Clarks”	“Bossini”	“bossini.X”	“LNG”	“Amedeo Testoni” (including its sub-brand “i29”)
Brand Logo					
Product Offering	Footwear and selected accessories (such as handbags and small leather goods)	Apparel	Apparel, footwear, accessories	Apparel, footwear, accessories	Leatherware (including footwear and apparel) and accessories
Target Market/Style	Fashion and casual footwear	Casual wear	Streetwear with sports element	Streetwear with ACGN elements	Luxury
Target Customer Group	All age group (men, women and kids)	All age group (men, women and kids)	Aged between 18 and 40 (men and women)	Aged between 28 and 45 (men and women)	Adult (men and women)
Price Range	Accessible to middle-end	Accessible	Middle-end	Mid-to-high-end	High-end
Major Geographical Coverage	the UK and the US	PRC, Hong Kong, Macau and Singapore	PRC	PRC	Europe, Hong Kong, Taiwan, Japan and South Korea
Distribution channels as at 31 December 2022	Online and offline (including 535 directly operated stores and 3,256 wholesale customers)	Online and offline (including 79 directly operated stores, 13 distributors and 12 partnership stores)	Online and offline (including 113 directly operated stores and 8 partnership stores)	Online and offline (including 16 directly operated stores, 31 distributors and 11 partnership stores)	Online and offline (including 33 directly operated stores and 49 distributors)

BUSINESS

In general, we outsource our manufacturing process to OEM suppliers. The management of our Company recognises that the design and production of footwear (when compared to apparel) typically involves more complicated procedures and additional specifications, and hence it would be beneficial for our Group to have its own in-house footwear design and development capability which would help the long-term development of our Group’s own brand footwear business. With that in mind, we decided to establish a shoe factory in the PRC for producing footwear for our self-owned brands. However, the development our own Group’s brand footwear business did not pick up as quickly as we planned primarily due to the waves of COVID-19. Accordingly, our shoe factory would have been left under-utilised if we were adamant on only producing footwear for our own brands. In addition, some of the footwear OEM suppliers of LN Group in the PRC, especially those in Fujian Province and Hubei Province, were also affected by COVID-19 which resulted in the suspension of operation in, or complete close down of, their manufacturing facilities. Faced with such supply chain disruption, LN Group invited us to provide them with footwear OEM services. As a result, we started to provide footwear OEM services to LN Group and other footwear manufacturers to utilise spare production capacity in our production facilities. For further details of our shoe factory and footwear OEM services, see sub-section headed “Our footwear OEM services” in this section.

For FY2020 and FY2021, “Bossini” accounted for a significant portion of our revenue from multi-brand apparel and footwear business. We completed the First Clark Acquisition in July 2022, and “Clarks” accounted for 84.2% of our total revenue of our multi-brand apparel and footwear segment in FY2022. The table below sets forth a breakdown of our revenue from multi-brand apparel and footwear segment for the periods indicated:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Clarks	–	–	–	–	5,386,883	84.2
Other Brands						
– Bossini	417,188	95.9	691,760	81.9	546,085	8.5
– LNG	17,968	4.1	90,552	10.7	84,095	1.3
– Amedeo Testoni	–	–	–	–	81,369	1.3
– bossini.X	–	–	4,098	0.5	45,270	0.7
Our shoe factory	–	–	56,876	6.7	225,707	3.5
Others (Note 1)	–	–	1,288	0.2	27,983	0.5
Total	435,156	100.0	844,574	100.0	6,397,392	100.0

Notes:

1. “Others” includes other ancillary brand and services, such as our self-owned lingerie brand “Neizhuang” and e-commerce services.
2. The above table does not include our rental income of HK\$3,838,000 in FY2020, HK\$6,648,000 in FY2021 and HK\$2,154,000 in FY2022 generated from the leasing of a self-owned property held under the Bossini Group.

BUSINESS

Gross profit margin of “Bossini”, “LNG” and “bossini.X” decreased in FY2022 primarily due to (i) the temporary closure of retail stores and decrease in foot traffic amidst the resurgence of COVID-19 in 2022; and (ii) our corresponding measures to increase the discount offered by such brands to boost sales. The table below sets forth a breakdown of the gross profit and gross profit margin of our multi-brand apparel and footwear segment for the periods indicated:

	FY2020		FY2021		FY2022	
	Gross profit HK\$'000	Gross profit margin %	Gross profit/ (loss) HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %
Clarks	-	-	-	-	2,672,617	49.6
Other Brands						
- Bossini	217,575	52.2	351,967	50.9	261,039	47.8
- LNG	10,579	58.9	60,238	66.5	34,420	40.9
- Amedeo Testoni	-	-	-	-	31,072	38.2
- bossini.X	-	-	2,680	65.4	18,385	40.6
Our shoe factory (Note 1)	-	-	(4,689)	-	7,555	3.3
Others (Note 2)	-	-	913	70.9	11,864	42.4
Total	228,154		411,109		3,036,952	

Notes:

- Our shoe manufacturing factory produces footwear for our own brands and provides footwear OEM services. It commenced operation in March 2021 and recorded a gross loss during FY2021 primarily due to the relatively low production volume and operation efficiency, and hence, a higher fixed overhead cost at the start-up stage. In FY2022, it turned gross loss into gross profit as it increased its production volume and operation efficiency. For details of the gross profit/(loss) of our footwear OEM services, see section headed “Business – Provision of Footwear OEM Services – Our footwear OEM services” in this document.
- “Others” includes other ancillary brand and services, such as our self-owned lingerie brand “Neizhuang” and e-commerce services. The decrease in gross profit margin in FY2022 when compared to that of FY2021 was primarily due to the increase in staff costs as we expanded our e-commerce team in the fourth quarter of 2021.
- The above table does not include our rental income of HK\$3,838,000 in FY2020, HK\$6,648,000 in FY2021 and HK\$2,154,000 in FY2022 generated from the leasing of a self-owned property held under the Bossini Group.

BUSINESS

Following are photos of our key products developed under each brand:

1. “Clarks”

The mission of “Clarks” is to “empower everyone with the freedom to move comfortably”. Made with nearly 200 years of experience and expert craftsmanship, “Clarks” adopts the following directions in products design and development, including (i) simplicity in design, (ii) crafted construction and detailing, (iii) iconic colours and materials, (iv) comfort and fit, and (v) quality and longevity, which are considered as the key features that differentiate its footwear products from the market.

We have various sub-brands under “Clarks” with different features tailoring for the needs of a specific group of customers, comprising (i) “Clarks Originals” which focuses on fashionable designs and targets the cult and streetwear consumer at a more premium positioning, and (ii) “Clarks Collection” and “Clarks Cloudsteppers” which aim to offer comfortable footwear at an affordable price range for adults. Following are photos of the key products developed under each brand and sub-brand of the Clark Group:

“Clarks”

“Clarks” is the main brand of the Clark Group targeting to deliver trend relevant everyday casual footwear for consumers.



“Clarks Originals”

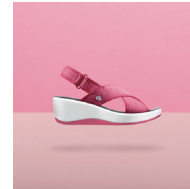
“Clarks Originals” is regarded by the Clark Group as its key driver of cultural relevancy and brand heat targeting the streetwear, fashion, trend setting consumers.



BUSINESS

“Clarks Collection” and “Clarks Cloudsteppers”

“Clarks Collection” and “Clarks Cloudsteppers” are positioned as the high-volume entry-level price point product that will draft from the brand heat and relevancy from “Clarks Originals” and “Clarks”.



2. “Bossini”

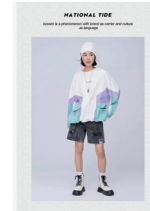
“Bossini” is a well-known casual wear brand in Hong Kong and the PRC. We primarily offer casual wear such as coats and jackets, T-shirts, dresses, pants, jeans, underwear, and socks suitable for women and men at various ages as well as kids at competitive price under this brand.



BUSINESS

3. “bossini.X”

“bossini.X” is a streetwear brand developed by us under our efforts of rebranding “Bossini” after our acquisition of Bossini in July 2020. We mainly offer middle-end streetwear with sports element catering to the tastes and preferences of young generations in the PRC.



bossini.X



bossini.X



4. “LNG”

Under the “LNG” brand, we offer apparel, footwear and accessories (such as bags, socks and caps) with ACGN elements. Leveraging off the popularity of our “LNG Esports” e-sports club, we also develop and offer fashion products with e-sports elements under our “LNG” brand. “LNG” also from time to time collaborates with youthful animation and fashion brands to launch crossover products.



BUSINESS

5. “Amedeo Testoni”

“Amedeo Testoni” and its diffusion line “i29” as our luxury fashion leatherware brand offer a wide selection of leather footwear and leather accessories, such as wallet and handbags, for men and women suitable for different occasion including leisure and business.



Product Planning, Design and Development

Our Design Capabilities

Each of our brands has a dedicated in-house design team that is responsible for product planning, design and development. As at 31 December 2022, our design team had 76 members. Most of the members of our design team are designers and product developers who have seasoned experience and expertise in apparel and footwear design and development, market trends and consumer preferences.

We also engage external design agents to design and develop accessories, such as handbags and small leather goods, for “Clarks”. Pursuant to our agreements with the external design agents, the agents will prepare sketches and artworks of designs based on our directions for our exclusive use at a service fee, and we are entitled to the intellectual property rights of the products designed by the agents pursuant to the engagement.

Product Planning, Design and Development Process

“Clarks” footwear are divided into two seasons, comprising “spring/summer” season which is typically launched on the shelf between December and March, and “autumn/winter” season which is typically launched on the shelf between June and October. We start to prepare for each season approximately one and a half years ahead.

Our Other Brands are typically divided into four seasons, comprising “spring” season which is typically launched on the shelf in February, “summer” season which is typically launched on the shelf in June, “fall” season which is typically launched on the shelf in August and “winter” season which is typically launched on the shelf in December. It typically takes five to eleven months from product planning to shop depending on the complexity of each design.

BUSINESS

Our product planning, design and development processes utilise our consumer insights and our research of the latest market trends to formulate holistic product launch plans for each new season. Our typical product planning, design and development includes the following process:

- **Product Planning:** Our design team conducts data analysis on customer surveys and market research of fashion trends, product ratings and competitive landscape of the apparel and footwear market. Based on these findings, our design team for each brand will formulate the seasonal creative direction and theme for each line of products, including the design concept and product mix, with reference to the overall brand and product strategy. Our design team maintains regular communications with different department functions, such as marketing, operations and sales units, in determining the overall design and strategies, performance metrics, new product development and product divestments.
- **Product Design and Development:** Based on the overall creative direction and theme, our design team further prepares design sketches and liaises with our supply chain team and OEM suppliers in turning the sketches into initial product prototypes. Upon receiving the initial product prototypes, we will review and fine-tune the design sketches until the final design has been approved. We assess the product prototypes in terms of, amongst others, colour, materials, technical specifications and engineering, pattern and design. Our management team, comprising members from our design team, marketing team and business management units, also conduct full-spectrum of reviews, such as costs analysis, assortment and retail planning and sales forecast, and determines the recommended retail price, product launch date, and the size and fit of each product line.

Our Sales Channels

We have diversified sales channels for our apparel and footwear, including multiple offline and online sales channels, enabling us to expand our customer reach in different geographical regions efficiently. As at 31 December 2022, our “Clarks” operation had 535 directly-operated stores mainly in the UK, the ROI and the US and 3,256 wholesale customers mainly in EMEA and the US. Offline sales channels for our Other Brands comprised 241 directly-operated stores primarily in the PRC and Hong Kong, 93 distributors with distributorship stores primarily in the PRC, Southeast Asia, the Middle East and Eastern Europe, and 31 partnership stores in the PRC as at 31 December 2022. We also established our online presence on over ten online sales platforms, including our online flagship store, T-mall, Taobao, Xiaohongshu and Douyin.

BUSINESS

Directly-operated stores generate most of our revenue from the multi-brand apparel and footwear business for the Track Record Period. The only significant change in our sales mix was the growth of distributors and wholesalers as a result of our acquisition of the Clark Group. The Clark Group sells a significant portion of its products to other retailers through wholesaling. The table below provides a breakdown of our revenue by sales channel for the periods indicated:

	FY2020		FY2021		Viva Group		FY2022		The Group	
	The Group HK\$'000	%	The Group HK\$'000	%	HK\$'000	%	Clark Group HK\$'000	%	HK\$'000	%
Offline channels										
- Directly-operated stores	334,552	76.9	601,184	76.3	580,460	74.0	2,496,510	46.3	3,076,970	49.9
- Distributors and wholesalers	30,633	7.1	97,407	12.4	112,947	14.4	2,097,030	39.0	2,209,977	35.8
- Partnership stores	15,389	3.5	25,905	3.3	14,439	1.8	-	-	14,439	0.2
Sub-total of offline channels:	380,574	87.5	724,496	92.0	707,846	90.2	4,593,540	85.3	5,301,386	85.9
Online channels	54,582	12.5	63,202	8.0	76,956	9.8	793,343	14.7	870,299	14.1
Total	435,156	100.0	787,698	100.0	784,802	100.0	5,386,883	100.0	6,171,685	100.0

Note: The above table does not include (i) revenue from provision of footwear OEM services of HK\$56.9 million in FY2021 and HK\$225.7 million in FY2022; and (ii) rental income of HK\$3,838,000 in FY2020, HK\$6,648,000 in FY2021 and HK\$2,154,000 in FY2022 generated from the leasing of a self-owned property held under the Bossini Group.

The Clark Group distributes its products through directly-operated stores, wholesale customers and online sales platforms. The table below provides a breakdown of revenue by sales channel of the Clark Group for the periods indicated before completion of the First Clark Acquisition:

	52 weeks to 30 January 2021		52 weeks to 29 January 2022		22 weeks to 3 July 2021 (unaudited)		22 weeks to 2 July 2022	
	£m	%	£m	%	£m	%	£m	%
Offline channels								
- directly-operated stores	290.9	37.3	402.1	43.4	127.8	36.9	175.0	43.9
- wholesales (Note 1)	334.9	43.0	365.8	39.5	156.9	45.3	173.5	43.5
Sub-total:	625.8	80.3	767.9	82.9	284.7	82.2	348.5	87.4
Online channels (Note 2)	153.1	19.7	158.3	17.1	61.8	17.8	50.3	12.6
Total	778.9	100.0	926.2	100.0	346.5	100.0	398.8	100.0

Notes:

- “Wholesales” includes sales to third party retailers and e-commerce and t-commerce platform operators.
- “Online channels” refers to the online flagship stores operated by the Clark Group.

BUSINESS

Breakdown of our total revenue by geographical locations

For FY2020 and FY2021, over 90% of our revenue were generated from the PRC, Hong Kong and Macau. In FY2022, over 60% of our revenue in FY2022 was generated from Americas, the UK and the ROI as a result of our acquisition of the Clark Group which focused on the UK and the US markets. The table below provides a breakdown of our revenue by geographical region for the periods indicated:

	FY2020		FY2021		Viva Group		FY2022		The Group	
	The Group HK\$'000	%	The Group HK\$'000	%	HK\$'000	%	Clark Group HK\$'000	%	HK\$'000	%
Americas	-	-	-	-	-	-	2,415,651	44.8	2,415,651	35.0
UK and ROI	-	-	-	-	-	-	2,327,041	43.2	2,327,041	33.7
The PRC (including Hong Kong and Macau)	778,371	95.0	1,309,752	94.8	1,388,125	91.7	279,119	5.2	1,667,244	24.2
Asia (other than the PRC, Hong Kong and Macau) (Note 2)	40,665	5.0	71,885	5.2	106,532	7.1	187,812	3.5	294,344	4.3
EMEA	-	-	-	-	18,850	1.2	177,260	3.3	196,110	2.8
Total	819,036	100.0	1,381,637	100.0	1,513,507	100.0	5,386,883	100.0	6,900,390	100.0

Notes:

- Our sales to wholesale customers and distributors were categorised by the place of incorporation of our Group member that entered into the relevant agreement. Please refer to the sub-section headed “Our Sales Channels – Breakdown of our sales to wholesale customers and distributors by their geographical locations” for further details.
- Asia primarily includes Japan, Malaysia, South Korea and Singapore.
- The above table does not include our rental income of HK\$3,838,000 in FY2020, HK\$6,648,000 in FY2021 and HK\$2,154,000 in FY2022 generated from the leasing of a self-owned property held under the Bossini Group.

According to the Frost & Sullivan Report, “Clarks” ranked the 1st in fashion and casual footwear market in the UK in terms of retail sales with 14.1% market share, and the 7th in the US with 1.8% market share, in 2021. For each of the 52 weeks period ended 30 January 2021 and 29 January 2022 and the 22 weeks period ended 2 July 2022, over 80.0% of the Clark Group’s revenue was generated from Americas, the UK and ROI. The table below provides a breakdown of the Clark Group’s revenue by geographical region for the periods indicated before completion of the First Clark Acquisition:

	52 weeks to 30 January 2021		52 weeks to 29 January 2022		22 weeks to 3 July 2021		22 weeks to 2 July 2022	
	£'m	%	£'m	%	£'m	%	£'m	%
Americas	311.0	39.9	389.0	42.0	155.0	44.8	197.2	49.4
UK and ROI	314.3	40.4	375.4	40.5	132.3	38.2	149.3	37.4
Europe (Note 1)	54.3	7.0	60.9	6.6	19.2	5.5	18.2	4.6
Asia Pacific (Note 2)	99.3	12.7	100.9	10.9	40.0	11.5	34.1	8.6
Total	778.9	100.0	926.2	100.0	346.5	100.0	398.8	100.0

Notes:

- Europe primarily includes Germany, Italy, Spain and France.
- Asia Pacific primarily includes Greater China, Japan and South Korea.

BUSINESS

Breakdown of our sales to wholesale customers and distributors by their geographical locations

The following table sets forth a breakdown of our revenue from our sales to wholesale customers and distributors by their geographical locations for the periods indicated:

	FY2020		FY2021		Viva Group		FY2022		The Group	
	The Group		The Group				Clark Group			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Americas	-	-	370	0.4	12	0.0	1,292,654	61.6	1,292,666	58.5
EMEA	5,297	17.3	14,549	14.9	31,793	28.2	309,465	14.8	341,258	15.4
UK and ROI	-	-	-	-	-	-	272,955	13.0	272,955	12.4
The PRC (including Hong Kong and Macau)	13,348	43.6	60,456	62.1	52,777	46.7	103,920	5.0	156,697	7.1
Asia (other than PRC, Hong Kong and Macau) (Note)	11,988	39.1	22,032	22.6	28,365	25.1	118,036	5.6	146,401	6.6
Total	30,633	100.0	97,407	100.0	112,947	100.0	2,097,030	100.0	2,209,977	100.0

Note: Asia primarily includes Japan, Malaysia, South Korea and Singapore.

The following table sets forth a breakdown of the Clark Group’s revenue from wholesaling by their geographical locations for the periods indicated:

	52 weeks to		52 weeks to		22 weeks to		22 weeks to	
	30 January 2021		29 January 2022		3 July 2021		2 July 2022	
	£m	%	£m	%	£m	%	£m	%
Americas	184.4	55.0	200.5	54.8	92.7	59.1	117.8	67.9
EMEA	76.2	22.7	85.2	23.3	42.7	27.2	29.9	17.2
UK and ROI	34.7	10.4	44.7	12.2	9.1	5.8	13.9	8.0
The PRC (including Hong Kong and Macau)	20.3	6.1	16.5	4.5	7.0	4.5	6.6	3.8
Asia (other than PRC, Hong Kong and Macau) (Note)	19.3	5.8	18.9	5.2	5.4	3.4	5.3	3.1
Total	334.9	100.0	365.8	100.0	156.9	100.0	173.5	100.0

Note: Asia primarily includes Japan, Malaysia, South Korea and Singapore.

Our Directly-Operated Stores

All our directly-operated stores are mono-brand stores. We manage our directly-operated stores through our regional execution team for each brand under the supervision of our management. We have control over location selection, staff recruitment, product stocking, daily operation and regular maintenance. We are responsible for the investment cost and daily operating expenses, including staff costs, maintenance fees and utilities, of our directly-operated stores, and are entitled to the sales generated therefrom.

BUSINESS

Our directly-operated stores are typically located within shopping malls or on street level with high visibility and customer traffic. Save for a small number of “Clarks” directly-operated stores which are operated on our self-owned properties, all other directly-operated stores are operated on leased properties. The leases for “Clarks” directly-operated stores typically have a terms of 10 years or more and are subject to a turnover rent or fixed rent while the leases for directly-operated stores of our Other Brands typically have a term of 2 to 3 years and are subject to a turnover rent for stores located in shopping malls, or a fixed rent for stores located on streets.

In order to optimise our directly-operated store network, we regularly review the performance of our directly-operated stores and make decisions on store openings and closures in accordance with, amongst others, our existing offline sales network, our brand development strategies, historical performance (if available) and sales projection of each stores, geographical location, customer propensity, and level of competition within the region. The break even point and investment payback period of our new directly-operated stores for our Other Brands opened during the Track Record Period were typically 4 months and 14 months, respectively.

The following table sets forth the changes in the number of our directly-operated stores by brands for the periods indicated:

	FY2020		FY2021				FY2022					
	Bossini	Total	Bossini	bossini.X	LNG	Total	Clarks	bossini.X	Bossini	Amedeo Testoni	LNG	Total
Number of stores at the beginning of the period	162	162	155	-	-	155	571	37	104	38	10	760
- Add: Opening of new stores	6	6	13	37	10	60	43	82	8	2	7	142
- Less: Closure of stores	(13)	(13)	(64)	-	-	(64)	(79)	(6)	(33)	(7)	(1)	(126)
Number of stores at the end of the period	155	155	104	37	10	151	535	113	79	33	16	776

The total number of our directly-operated stores remained relatively stable for FY2020 and FY2021. Although we closed down several under-performing “Bossini” stores in FY2020 and FY2021 as part of our regular business review, such effect was set off by the opening of new “bossini.X” stores as part of our rebranding efforts and the opening of new “LNG” stores along with the growth and expansion of our business. For FY2022, we recorded a significant increase in the number of our directly-operated stores primarily due to (i) our acquisitions of “Clarks” in July 2022 and “Amedeo Testoni” in January 2022, and (ii) the expansion of “bossini.X”. Subject to the market conditions and unforeseeable events, we currently expect to open a total of 34 new directly-operated stores mostly located in the PRC for “bossini.X”, “LNG”, “Amedeo Testoni” and “Clarks” in the first half of 2023.

BUSINESS

For the 52 weeks to 30 January 2021 and 29 January 2022 and the 48 weeks period ended 31 December 2022, the Clark Group recorded a continuous decrease in the number of directly-operated stores primarily due to the closure of under-performing stores during global economic downturn caused by the resurgence of COVID-19 and the related lock-down and social distancing measures. The following table sets forth the changes in the number of the directly-operated stores of the Clark Group for the periods indicated:

	52 weeks to 30 January 2021	52 weeks to 29 January 2022	48 weeks to 31 December 2022
Number of stores at the beginning of the period	679	578	571
– Add: Opening of new stores	24	40	43
– Less: Closure of stores	<u>(125)</u>	<u>(47)</u>	<u>(79)</u>
Number of stores at the end of the period	<u><u>578</u></u>	<u><u>571</u></u>	<u><u>535</u></u>

As a well-known international footwear brand, the Clark Group has established an extensive directly operated stores sales network across the world with a focus in the UK and the US market. The following table sets forth the number of the Clark Group’s directly operated stores by geographical location as at the following dates:

	As at 30 January 2021	As at 29 January 2022	As at 31 December 2022
The UK and ROI	297	289	257
The US	171	164	165
Greater China	68	68	57
Asia Pacific (other than Greater China)	25	29	35
EMEA	<u>17</u>	<u>21</u>	<u>21</u>
Total	<u><u>578</u></u>	<u><u>571</u></u>	<u><u>535</u></u>

BUSINESS

During the Track Record Period, our “Bossini” and “bossini.X” directly-operated stores recorded a decrease in average monthly sales per store primarily because (i) our new brand of “bossini.X” is still at the development stage and (ii) the decrease in foot traffic as a result of the lock-down in various cities in the PRC due to the resurgence of COVID-19 in early 2022 whereas that of our “LNG” brand recorded a slight increase in FY2022 despite the resurgence of COVID-19 primarily due to the increase in its brand awareness brought by the outstanding performance of our “LNG Esports” at the League of Legends Pro League in 2021. The following table sets forth the average monthly sales per store of our directly-operated stores for the periods indicated:

	FY2020	FY2021	FY2022
	HK\$'000	HK\$'000	HK\$'000
Clarks (Note)	–	–	497.6
“Bossini” (including “bossini.X”)	434.4	366.9	254.6
“LNG”	–	130.8	159.5
“Amedeo Testoni”	–	–	158.9

Note: The average monthly sales per store for Clarks covers period from 1 July 2022 to 31 December 2022.

Management of directly-operated stores

We believe that customers experience within retail stores contributes to their purchase decisions and our brand images. We have therefore dedicated resources in managing our directly-operated stores at the following aspects:

- **Site selection:** Site selection is critical to the success of physical stores. Most of our directly-operated stores are located within shopping malls and commercial districts which are compatible with our brand positioning.
- **Store design and decoration:** We aim to create a consistent image for our directly-operated stores for each of our brands with reference to the relevant brand image and features. We adopt a unified design, store area guidelines regarding the product displays and staff uniforms to create a consistent visual image of our directly-operated stores under each brand.
- **Sales personnel:** Sales personnel plays an essential role in creating customer experience and collecting customers’ feedbacks. We provide regular training to our sales personnel to enhance their overall capabilities, such as sales and communication skills, product and brand knowledge, industry and market trends, and management skills to better serve our customers.

BUSINESS

- **Cash and payment management:** We accept payment by cash, credit cards, Alipay and WeChat Pay. Each directly-operated store is equipped with our information technology system, including POS terminals, which are directly connected to the system of our headquarters. We have also adopted internal control procedures for handling cash in our directly-operated stores, including:
 - our regional supervisors can review the daily sales performance and cash proceeds of each directly-operated store through our system; and
 - cash proceeds must be kept in cash cabinet and deposited in our designated bank accounts at least two times per week. Before the cash proceeds are deposited, they are kept in a safe at the directly-operated store.
- **Sales and inventory record:** Each directly-operated store is equipped with our information technology system, including POS terminals, which allow us to monitor sales data and inventory levels on a real-time basis. We require each store to conduct stock take regularly and report to our headquarters to ascertain the actual inventory level at each store and to correct any inconsistency identified in our internal system.

Other Offline Channels

In order to diversify our customer base in existing geographical markets, and to expand into new geographical markets in an asset-light and cost-effective manner, we cooperate with our wholesale customers, distributors and partners for the offline sale of our fashion products in different geographical regions across the world. According to Frost & Sullivan, this business model is consistent with market practices in the apparel and footwear industry.

Wholesale by “Clarks”

In order to distribute its products in an asset-light and cost-effective manner, the Clark Group sells its products to its wholesale customers, such as e-commerce and t-commerce platform operators and department stores, for their onward sales to end-customers. According to Frost & Sullivan, this business model is commonly seen in the global footwear industry.

As at 31 December 2022, the Clark Group had 3,256 wholesale customers, most of which are based in EMEA and the US. In most cases, the Clark Group sells its products to the wholesale customers (as purchaser) at the wholesale price where the title of the products passes to the wholesale customers upon delivery to the common carrier. For certain wholesale customers in the UK and EMEA, the Clark Group places its products in the care of the wholesale customers for sale to end-customers on consignment model where title of the products passes to the wholesale customers when they ship the products to the end-customers. Sales to wholesale customers on consignment model constituted an insignificant amount of the total revenue of the Clark Group.

BUSINESS

For the 52 weeks to 30 January 2021 and 29 January 2022 and the 48 weeks period ended 31 December 2022, the Clark Group recorded a continuous decrease in the number of wholesale customers primarily due to the global economic downturn resulting from the resurgence of COVID-19 and the related lock-down and social distancing measures. The following table sets forth the changes in the number of the Clark Group’s wholesale customers for the periods indicated:

	52 weeks to 30 January 2021	52 weeks to 29 January 2022	48 weeks to 31 December 2022
Number of wholesale customers at the beginning of the period	4,306	3,767	3,525
– Add: New wholesale customers	476	541	472
– Less: Terminated wholesale customers	<u>(1,015)</u>	<u>(783)</u>	<u>(741)</u>
Number of wholesale customers at the end of the period	<u><u>3,767</u></u>	<u><u>3,525</u></u>	<u><u>3,256</u></u>

The following table sets forth the number of the Clark Group’s wholesale customers by geographical location as at the following dates:

	As at 30 January 2021	As at 29 January 2022	As at 31 December 2022
EMEA	1,941	1,845	1,657
The US	1,473	1,322	1,262
The UK & ROI	250	249	245
Asia Pacific (other than Greater China)	70	77	63
Greater China	<u>33</u>	<u>32</u>	<u>29</u>
Total	<u><u>3,767</u></u>	<u><u>3,525</u></u>	<u><u>3,256</u></u>

The Clark Group typically enter into a set of terms and conditions with its wholesale customers and maintain an online portal system for those wholesale customers to place orders with the Clark Group directly thereon. Principal terms of the terms and conditions include:

Exclusivity as to products: Wholesale customers are generally permitted to sell products from other brands.

Exclusivity as to geographical region: Wholesale customers are only permitted to sale the products at retail locations and websites registered with and approved by the Clark Group.

BUSINESS

For online sales, wholesale customers are prohibited from selling any products to consumers with mailing address located outside of the country in which wholesale customers business account with Clark Group are set up or as previously communicated to Clark Group or otherwise known to Clark Group.

Intellectual property rights protection:

Whilst wholesale customers are permitted to use the intellectual property of the Clark Group for purposes of promoting the products, they acknowledge that (i) the Clark Group has sole ownership of and all right, title and interest in all such intellectual property rights, and (ii) all intellectual property rights must remain in its original form, and any advertisements, promotions, or other marketing materials utilising such intellectual property rights must be approved by the Clark Group before public release.

Order rights and payment:

For wholesales under purchase model: Wholesale customers place order with the Clark Group for purchase of the products at the purchase price. Title of the products passes to the wholesale customers upon delivery to the common carrier unless otherwise specified in the purchase order.

For wholesales under consignment model: Upon receiving purchase order from the wholesale customers, the Clark Group places its products in the care of the wholesale customers for onward sale to end-customers on a consignment basis. Title of the products only passes to such wholesale customers when they ship the products to end-customers, and the wholesale customers pay to the Clark Group for the sold consignment products at the price set out in their purchase order with the Clark Group.

Product return arrangement:

Wholesale customers are entitled to return to the Clark Group for any products which are defective, or those are not shipped in accordance with the purchase order within an agreed period.

Sub-distributorship:

Wholesale customers can sell the products only to end-user consumers and exclusively through the approved retail locations and websites.

Wholesale customers are expressly prohibited from selling any products to, through or in conjunction with, (i) other retailers, wholesalers or distributors, or (ii) any websites unless previously approved by the Clark Group.

BUSINESS

In order to uphold the product and brand image of “Clarks” and to avoid any price war or cannibalisation, the Clark Group maintains a minimum advertised price policy that applies to its wholesale customers. Pursuant to such policy, the Clark Group will not conduct business with wholesale customers who advertise (whether directly or indirectly by re-directing to any discount codes) any products from the Clark Group at prices lower than the minimum advertised price determined by the Clark Group. The Clark Group, through its internal management and externally engaged investigators, monitor the pricing of the products set by the wholesale customers. In the event of violation, the Clark Group will issue warning to the defaulting wholesale customers and cease to conduct any business with them.

Distributors and partnership stores for our Other Brands

As at 31 December 2022, we had 93 distributors with distributorship stores located in the various parts of the world (including the PRC, Southeast Asia, the Middle East and Eastern Europe) and 31 partnership stores located in the PRC for distributing products of our Other Brands.

For distributorship model, our distributors (as purchaser) purchase products from us (as seller) for onward distribution to end-customer within the geographical region specified in the distributorship agreement. Ownership of our products passes to our distributors upon delivery to their designated locations set out in the purchase order. According to our accounting policies, revenue is normally recognised when control of our products has been transferred to the buyer, which is upon the acceptance of our products. Revenue from distributors is usually recognised at the time when the title of our products are passed to our distributors. Our distributors are required to invest in and operate the distributorship stores in accordance with our guidelines in respect of, amongst others, pricing, product display, staff uniform and marketing strategies, at their own costs. We are not responsible for the profit or loss of the distributorship stores or our distributors.

For partnership model, we manage and operate the partnership stores together with our partners. We supply and consign our products at partnership stores for sale to end-customers at the partnership stores. Ownership of our products is retained by us until our products are sold to end-customers. We are responsible to bear the inventory risk and determine the retail price range. Revenue is recognised when our products are sold to the end-customers at partnership stores. We are required to share an agreed portion of the actual sales amount generated from partnership stores with our partners in accordance with the agreement. Our partners will be responsible for the major on-going operating expenses of the partnership stores, and we will provide training to our partners and their staff as to store operation. In accordance with the agreement, we may sustain losses during the operation of partnership stores if the actual sales amount of our partnership stores (excluding the agreed portion payable to our partners) is less than costs of our products and the investment costs contributed by us to the partnership stores.

BUSINESS

We select distributors and partners based on a number of criteria, including but not limited to, their management experience and brand portfolio, retail network, operation capability, marketing capabilities, financial conditions, and reputation. We also evaluate the performance of our distributors and partnership stores annually based on the above criteria and the historical purchase amount (for distributors) and sales amount (for partners) in determining the continuance of our business cooperation.

Being mindful of the risk of cannibalisation among our retail stores, we also take into account of our existing retail network in selecting and approving the location of the distributorship stores and partnership stores to avoid over-concentration of retail stores in a specific geographical region. For example, our “LNG” directly-operated stores are generally located at first-tier cities in the PRC whereas its distributorship stores and partnership stores are generally located in different regions on second-tier cities in the PRC to avoid direct competition.

Our agreements with distributors and partners explicitly prohibit them from distributing our products outside the territory specified in the agreement and to strictly follow our pricing policy to avoid any price war or damage of our brand, and prohibit them from engaging any sub-distributors unless previously approved by us. In particular, our distributors and partners are required to follow the recommended retail price range determined by us in selling our products and any discounts proposed by them must be approved by us in advance. As a result, we are able to adopt a unified retail price for our products within the same geographical region. Any seasonal discount and product deployment will be coordinated by our management under a centralised system.

To enforce such measures effectively, we also conduct inspections at our distributorship stores and partnership stores regularly to ensure compliance with our pricing policy. In the event of any violation of the above provisions, we are entitled to terminate the agreement with the distributors and/or partners and to claim for damages. Further, we have established formal evaluation system for our distributors and partners based on a set of criteria which includes, amongst others, sales performance, retail network, reputation.

We do not believe our distribution system has been affected by cannibalisation because we did not experience any material sales returns or product exchanges from our distributors and partners except for selected cases of defective products during the Track Record Period. Our Directors believe that the measures taken by us to manage our distributors and partners have been effective to deter activities that would lead to cannibalisation.

BUSINESS

We recorded a continuous increase in the number of distributors during the Track Record Period primarily due to (i) the expansion of “LNG” and (ii) completion our acquisition of “Amedeo Testoni” in January 2022. The following table sets forth the changes in the number of our distributors for the periods indicated:

	FY2020			FY2021			FY2022			
	LNG	Bossini	Total	LNG	Bossini	Total	Amedeo Testoni	LNG	Bossini	Total
Number of distributors at the beginning of the period	-	18	18	33	16	49	23	45	16	84
- Add: New distributors	33	1	34	24	-	24	26	13	1	40
- Less: Terminated distributors	-	(3)	(3)	(12)	-	(12)	-	(27)	(4)	(31)
Number of distributors at the end of the period	<u>33</u>	<u>16</u>	<u>49</u>	<u>45</u>	<u>16</u>	<u>61</u>	<u>49</u>	<u>31</u>	<u>13</u>	<u>93</u>

During the Track Record Period, none of our distributors individually contributed more than 5% of our total revenue in any fiscal year, and the primary reason for non-renewal or termination of the distributorship agreement was due to the unsatisfactory performance of the relevant distributors.

The number of our distributorship stores recorded a continuous decrease during the Track Record Period primarily due to the (i) closure of under-performing distributorship stores as part of our regular business review and (ii) rebranding strategy for Bossini to shift its business focus from “Bossini” to “bossini.X” since our acquisition of Bossini in July 2020. The following table sets forth the changes in the number of our distributorship stores for the periods indicated:

	FY2020			FY2021			FY2022			
	Bossini	LNG	Total	Bossini	LNG	Total	Bossini	LNG	Amedeo Testoni	Total
Number of stores at the beginning of the period	773	-	773	737	155	892	539	206	40	785
- Add: Opening of new stores	18	155	173	6	104	110	24	40	31	95
- Less: Closure of stores	(54)	-	(54)	(204)	(53)	(257)	(216)	(101)	-	(317)
Number of stores at the end of the period	<u>737</u>	<u>155</u>	<u>892</u>	<u>539</u>	<u>206</u>	<u>745</u>	<u>347</u>	<u>145</u>	<u>71</u>	<u>563</u>

We recorded a continuous increase in the number of partners during the Track Record Period due to the business expansion of “LNG” and “bossini.X”. The following table sets forth the changes in the number of our partners for the periods indicated:

	FY2020		FY2021			FY2022			
	Bossini	Total	Bossini	LNG	Total	LNG	bossini.X	Bossini	Total
Number of partners at the beginning of the period	7	7	8	-	8	7	-	8	15
- Add: New partners	1	1	-	7	7	7	7	1	15
- Less: New partners	-	-	-	-	-	(4)	-	(4)	(8)
Number of partners at the end of the period	<u>8</u>	<u>8</u>	<u>8</u>	<u>7</u>	<u>15</u>	<u>10</u>	<u>7</u>	<u>5</u>	<u>22</u>

BUSINESS

The number of our partnership stores decreased in FY2021 primarily due to the (i) closure of under-performing partnership stores under our regular business review and (ii) rebranding strategy for Bossini to shift its business focus from “Bossini” to “bossini.X”; and recorded a slight increase in FY2022 mainly due to the business expansion of “bossini.X”. The following table sets forth the changes in the number of our partnership stores for the periods indicated:

	FY2020		FY2021			FY2022			
	Bossini	Total	Bossini	LNG	Total	Bossini	LNG	bossini.X	Total
Number of stores at the beginning of the period	74	74	35	-	35	18	7	-	25
- Add: Opening of new stores	7	7	-	7	7	7	8	8	23
- Less: Closure of stores	(46)	(46)	(17)	-	(17)	(13)	(4)	-	(17)
Number of stores at the end of the period	<u>35</u>	<u>35</u>	<u>18</u>	<u>7</u>	<u>25</u>	<u>12</u>	<u>11</u>	<u>8</u>	<u>31</u>

Arrangements with our distributors and partners

We regulate our business relationship with our distributors and partners by entering into legally binding agreements with them. Depending on the location of the market and the commercial negotiations with the particular distributor and/or partner, terms of our agreements may be different to cater for the specific needs. Please refer to the below table for summary of the material terms of our agreements with distributors and partners, and the material differences between distributorship model and partnership model:

	Distributorship Agreement	Partnership Agreement
Duration:	For “Bossini” and “LNG”: Typically for a term of 1 to 5 years. For “Amedeo Testoni”: Typically a one-off sale and purchase agreement.	Typically for a term of 1 to 3 years.
Exclusivity as to products:	For “Bossini”: Distributors are typically prohibited from distributing products from other brands at the distributorship stores unless approved by us. For “LNG” and “Amedeo Testoni”: Distributors are typically permitted to distribute products from other brands at the distributorship stores.	Products from other brands cannot be sold at the partnership stores.

BUSINESS

	Distributorship Agreement	Partnership Agreement
Exclusivity as to geographical region:	Distributors and partners are prohibited from distributing our products outside the territory specified in the agreement.	
Intellectual property rights protection:	Unless previously approved by us or otherwise provided under the agreement, distributors and partners are prohibited from using our trademarks or other intellectual properties. They are also required to protect our credibility and reputation and keep our corporate information, business know-how and trade secrets in strict confidence.	
Order rights and payments:	Distributors (as purchaser) typically place purchase orders with us for our products at the purchase price. Title of our products passes to our distributors upon delivery to the destination specified in the purchase order.	We are responsible for the supply of the products to our partnership stores on a consignment basis. Title of our products is retained by us until our products are sold to end-customers. Revenue is recognised when the products are sold to the end-customers at partnership stores. We are required to share an agreed portion of the actual sales amount generated from partnership store with our partners in accordance with the agreement. We are not required to pay any consignment fee to our partners.
Minimum purchase amount by distributor/partners:	<i>For “Bossini”:</i> Distributors are required to purchase a minimum amount of products from us. If the actual purchase amount is lower than the minimum, we are entitled to terminate the agreement forthwith by written notice. <i>For “LNG” and “Amedeo Testoni”:</i> Nil.	Nil.

BUSINESS

	Distributorship Agreement	Partnership Agreement
Deposits from distributor/partners:	Distributors may be required to pay a deposit to us upon signing of the agreement and/or upon placing order.	Partners are required to pay a deposit to us for the products consigned to them and for their due performance of the agreement upon signing of the agreement.
Goods return and obsolete stock arrangement:	<p><i>For “Bossini” and “Amedeo Testoni”:</i> Our distributors are not permitted to return unsold products to us except for defective products or mismatched delivery.</p> <p><i>For “LNG”:</i> Other than defective products or mismatched delivery, we generally accept return of selected obsolete stock within a permitted percentage (i.e. typically 20% of our total sales to such distributor) for once during the term of the agreement provided that there is nothing that will affect the subsequent sale of such returned products. <i>(Note)</i></p> <p>According to Frost & Sullivan, our product return policy under both distributorship model and partnership model is in line with the industry practice.</p>	<p>We are responsible for the stock arrangement.</p> <p>Our partners are required to maintain our products in good conditions, and are obliged to compensate us for any loss or damage to the products consigned to them.</p>
Retail selling prices:	Our distributors and partners are required to follow our pricing policy and recommended retail price range determined by us. Any discounts given by our distributors or partners lower than the agreed discount to end-customers must be approved by us in advance. The recommended price range for distributors is normally wider than the range for partners.	

BUSINESS

	Distributorship Agreement	Partnership Agreement
Restrictions on sub-distributorship:	Our distributors are prohibited from engaging any sub-distributors unless previously approved by us.	Our partners are cannot assign the operation of the partnership stores to other third parties, or to sell our products to other third party retailers for onward distributions.

Note: The amount of obsolete goods returned by our distributors in this regard was HK\$0.01 million in FY2020, HK\$1.61 million in FY2021 and HK\$1.40 million for FY2022, accounting for approximately 0.01%, 1.78% and 1.66% of our total revenue derived from “LNG” for the respective periods. All of such returned products are of merchantable quality and are fit for resale to other customers.

To the best knowledge of our Directors, as at 31 December 2022, (i) save for one distributor which is a member of the Li Ning Group (“**Li Ning Group Distributor**”), all of our distributors and partners are Independent Third Parties, (ii) none of our distributors or partners are controlled by our former or current employees, and (iii) none of our distributors or partners has received any material advance or financial assistance from us. Revenue generated from the Li Ning Group Distributor was HK\$4.0 million, HK\$13.4 million and HK\$14.8 million, representing 0.9%, 1.6% and 0.2% of our total revenue from multi-brand apparel and footwear business, for FY2020, FY2021 and FY2022, respectively.

Management of our distributorship stores and partnership stores

We actively supervise the operation of our distributorship stores and partnership stores in various aspects to ensure that our retail policies and operating procedures are implemented uniformly across our entire retail stores without any conflict of interest or abuse, including but not limited to:

- **Uniform retail pricing policy:** Our distributors and partners are required to follow the pricing policy and recommended retailing price range determined by us. If our distributors and partners violate our retail pricing guidance, we are entitled to terminate the agreements with them.
- **Consistent store design and decoration:** Our distributors and partners are required to design and decorate their stores in accordance with the guidelines covering handed down by us to achieve a consistent brand image and visual image with our retail stores for each brand.

BUSINESS

- ***Sales and inventory records:*** To avoid overstocking, we evaluate the purchase orders from our distributors and determine the product assortment policy for our partnership stores with reference to their historical sales and forecasts. In addition, we require our distributors and partners to implement our POS system in their stores which allow us to track and monitor their sales and inventory records. Alternatively, our distributors and partners are required to submit sales report to us monthly.
- ***Regular inspection:*** We are entitled to conduct on-site inspection of the distributorship stores and partnership stores. We conduct regular inspection at the stores to monitor the operation and customer service of our distributors and partners and will notify them the required remedial measures to be taken with respect to aspects that do not meet our standards.
- ***Consent right over opening of retail stores:*** We require our distributors and partners to obtain our prior consent before opening any new stores within their authorised territory.

During the Track Record Period, we are not aware of any material breach by our distributors or partners in respect of their agreements or the applicable operation policies.

Our Online Sales Channels

According to Frost & Sullivan, online channels accounted for 29.4%, 32.1% and 27.1% of the total retail sales of the fashion industry the US, the UK and the PRC in 2021 respectively. Whilst offline channels were, and are expected to remain as, the major contributor to the fashion industry in these jurisdictions, online channels had experienced, and is expected to maintain, a faster growth rate and become more and more important in these markets. Noting the potential of online market, we devoted resources in strengthening our online capabilities and established online presence on our online flagship store and various online platforms, including major e-commerce platforms such as T-mall, JD.com and Taobao as well as social media platforms such as Xiaohongshu and Douyin. In addition to the traditional online sales platforms, we also participate in influencer marketing and engage KOLs and live-streamers for self live-streaming to promote our fashion products. Following completion of the First Clark Acquisition in July 2022, in addition to maintaining the Clark Group’s existing online store, our e-commerce team has taken over the PRC online sales management of “Clarks” and expanded its sales channels from conventional third-party e-commerce platforms to other social media platforms, such as Xiaohongshu and Douyin, to enhance its brand recognition and online sales in the PRC.

Other than boosting our sales directly, we believe online sales platform also serves as an important channel for consumer feedback. Through analysis of anonymised customer data such as age groups, product browsing patterns and key words searched, we are able to gain additional consumer insights and perspectives, which acts as an important input for our creative teams when designing new products.

BUSINESS

In future, we intend to make additional investment in online channels, including but not limited to modernising “Clarks” online flagship store to target at millennials with purchasing power, engaging more KOLs and live-streamers, product seeding, expanding and diversifying our presence on other online sales platforms, and tapping into the market of group purchasing platform. We believe such marketing strategies will enable us to timely capture market trends and consumer needs and improve our brand recognition on mainstream online channels as well as our customer engagement capabilities. Our marketing expenses incurred in promoting our online channels were HK\$16.2 million, HK\$32.7 million and HK\$108.6 million for FY2020, FY2021 and FY2022, respectively.

As confirmed by our PRC legal advisers, we are not subject to any licensing requirements for our operation of the online stores on the PRC e-commerce platforms under the applicable PRC laws and regulations. In addition, we have implemented various personal data privacy protection policies and measures in compliance with the applicable laws and regulations. For further details, please refer to the sub-section headed “Data Privacy Protection” in this section.

Our Pricing Policy

Pricing Policy for “Clarks”

The Clark Group adopts a uniform retail pricing strategies for its products that applies to its directly-operated stores, sales platforms (including retail stores and online platforms) of its wholesale customers, and its own online flagship store. The Clark Group conducts costing review and determine the recommended retail price and wholesale price of the products at the stage of product design and development. In determining the pricing of the products, factors considered include, amongst others, production costs, target return, regional mark-up and global margin requirements, pricing of market competitors, target consumer groups in terms of age, type and geographical region, and other related costs, such as freight, duty and exchange rate. After official launch of the products, the Clark Group undertakes regular review on the pricing, sales level and inventory level of its products which will be used to drive decisions on promotional sales, assortment planning, pricing and new seasonal development. For example, out-of-season products will be sent to outlet stores for sale. The Clark Group continues this pricing policy following completion of the First Clark Acquisition in July 2022.

Pricing Policy for Other Brands

We also adopt a uniform retail pricing strategies for our Other Brands which applies to our retail stores and online channels. Pursuant to the respective agreements with our distributors and partners, they are required to follow our pricing policy or recommended price range and any discount or variance must be approved by us in advance. We price our products at the product design and development stage based on, among other things, market research and analysis on the purchasing power and consumption propensity of our target customers, brand position, market trends as well as costs of purchases from our OEM suppliers. Depending on the sales data and to better management our inventories at the end of each season, we conduct promotional sales of our selected products at selected sales platforms, such as outlets and online sales platforms.

BUSINESS

Our After-sales Service

After-sales Services for “Clarks”

The product return, refund and exchange policies of the Clark Group vary depending on, amongst others, customers (end-consumers or wholesale customers), laws and regulations on product return of the relevant jurisdiction, sale channels (online or offline) and products (full-price products or discounted products). All requests for return, refund and exchange must be approved by the Clark Group. The Clark Group continues the existing arrangements following completion of the First Clark Acquisition in July 2022.

For sales to end-consumers, the Clark Group typically accepts requests for product return, refund and exchange of unworn or unused products in original condition and packaging, supported by receipt or delivery documents as proof of purchase, within 28 days of receipt (for full-price products) and 14 days (for products purchased in sale). Defective products can be returned within 6 months for full refund or product exchange.

In respect of wholesale customers, they are generally permitted to return to the Clark Group for any products which are defective, or those are not shipped in accordance with the purchase order within an agreed period. In general, requests for return of products incorrectly shipped must be communicated to the Clark Group within 48 hour of receipt and refund requests must be communicated to the Clark Group in writing within 30 days of shipment date with sufficient details for the Clark Group to identify the relevant products and order. The Clark Group reserves the right to reject any requests if the information provided is not sufficient.

The Clark Group has a designated customer service team to attend to complaints and enquiries from customers online. Upon receipt of enquiries or complaints, they will follow-up with the customers through various means, such as calls, web chat, social media and e-mail. The retail staff at directly-operated stores also attend to the customers’ enquiries and complaints onsite for various matters, ranging from products and size selection, product return, exchange and refund.

After-sales Services for Other Brands

For our retail customers, we generally accept product exchange or product return for cash within seven days of purchase in the PRC. Product return or exchange is generally not allowed in Macau and Hong Kong except when the product is defective or mismatched delivery.

We require our store personnel to follow our customer service guidelines in handling customer complaints. We receive and handle customer inquiries and complaints in stores and through hotlines. We address complaints by communicating with customers and, at times, taking actions to reinforce customers’ confidence in our brands. Our store personnel keep detailed records of customer inquiries, feedback and complaints, and the results of investigation or measures taken.

BUSINESS

We typically do not provide warranty to our distributors, and nor do we allow them to return products to us, except for product quality issues, mismatched delivery or permitted return of obsolete products previously agreed by us on a case by case basis in accordance with the agreements. During the Track Record Period, we have not encountered any return of products of a material sum, and there were no material product liability claims or complaints from our customers, and we did not record any provision for product warranty.

Marketing and Promotion

We continuously invest in advertising and promotion to enhance customer loyalty, brand reputation and market recognition. We determine the overall marketing strategies and budget at the beginning of each year and conduct regular reviews on, among other things, the return on ad spend and marketing efficiency to evaluate the effectiveness and cost-efficiency of our marketing strategies and budget.

We advertise our brands and products through various means, including advertisements on multiple media, maintenance of social media accounts, and engaging brand ambassadors. We place advertisements on different online and offline channels including websites, social media, billboards and magazines. We utilise our website and social media accounts to share our design philosophy, artistic and lifestyle visions and new collections to the general public so as to enhance our brand image and to increase consumer awareness of our products in the market. To spur end-customers’ demand for our products, we engage influencers and KOLs to promote our brands and may from time to time offer discounts and promotions, especially on end-of-season and out-of-season inventory. For example, we conduct seasonal sales campaigns under our “Clarks operation” during back-to-school period, festivals and holidays to increase sales and promote “Clarks” products. We may also participate in the seasonal sales or promotional activities organised by department stores during holidays or festivals.

Provision of Footwear OEM Services

In general, we outsource our manufacturing process to OEM suppliers. However, our management recognises that the design and production of footwear (when compared to apparel) typically involve more complicated procedures and additional specifications, and hence it would be beneficial for our Group to have our own in-house footwear design, research and development capability which would serve as a foundation for our long-term business development for our Group’s own brand footwear business. With that in mind, in 2020, we decided to establish a shoe factory in the PRC for producing footwear for our own brands. For further details of our shoe factory, please see the paragraph headed “Our footwear manufacturing facilities” in this subsection. Our shoe factory is supported by favourable local government policies in the form of a performance based rental reduction and tax reduction from its commencement of operation to 30 June 2026. Our management also believes that having our own captive footwear manufacturing capability will increase our overall operation efficiency for our Group’s own brand footwear business, and allow us to capture the profit margin from such upstream operation in the longer term. According to Frost & Sullivan, it is common for footwear brand operators to maintain their own production facilities for product development and manufacturing purposes.

BUSINESS

While it was our original plan for the shoe factory to focus on producing footwear for our own brands, however the development of our Group’s own brand footwear business did not pick up as quickly as we planned primarily due to the waves of COVID-19. Accordingly, our shoe factory would have been left under-utilised if we were adamant on only producing footwear for our own brands. Some of the footwear OEM suppliers of LN Group in the PRC, especially those in Fujian Province and Hubei Province, were also affected by COVID-19 which resulted in the suspension of operation in, or complete close down of, their manufacturing facilities. Faced with such supply chain disruption, LN Group invited us to provide them with footwear OEM services to ensure a sufficient supply of their footwear. As a result, we started to provide footwear OEM services to LN Group and other footwear manufacturers to utilise spare production capacity in our production facilities. The Directors consider that such arrangement is beneficial to our Group.

Our footwear manufacturing facilities

In late 2020, we co-operated with Hubei Fleet Footwear Company Limited* (湖北福力德鞋業有限公司)(“**Hubei Fleet**”) to establish a private limited company in the PRC, namely, Laibin Ningjuli Footwear Company Limited* (來賓寧聚力鞋業有限公司)(“**Laibin Ningjuli**”) which is held as to 70% by our Group and 30% by Hubei Fleet, for the investment and operation of a shoe factory. As at the Latest Practicable Date, the registered capital of Laibin Ningjuli was RMB45 million, all of which had been fully paid by our Group and Hubei Fleet in proportion to the respective shareholdings.

Hubei Fleet

Hubei Fleet is a private limited company established in the PRC in 2008 and is principally engaged in the research and development, manufacturing and sales of footwear and related raw materials. Hubei Fleet is one of the footwear OEM suppliers of LN Group and has years of experience in footwear development and manufacturing. As at 31 December 2022, Hubei Fleet had one production site of approximately 100,000 square meters located at an industrial park in Hubei Province comprising 12 production lines and supported by approximately 3,000 workers. Hubei Fleet primarily focuses on the development and manufacturing of sports trainers for various sports, such as running, basketball and badminton, and casual trainers for various international and domestic footwear brands, as well as the sale of related raw materials. For FY2020, FY2021 and FY2022, the estimated production capacity¹ of Hubei Fleet was 4.5 million, 5.4 million and 5.3 million pairs of footwear and its actual production volume was 4.3 million, 5.0 million and 5.1 million pairs of footwear, respectively.

Note 1: The estimated production capacity is determined by factors including, number of workers, number of working hours, estimated production per hour, design of the footwear products, complexity of the manufacturing process and the number and types of equipment in use.

BUSINESS

Hubei Fleet is held as to 94% by Mr. Liang Jiuzhang who is also the director and general manager of Hubei Fleet and 6% by another individual investor. To the best knowledge, information and belief of our Directors after making all reasonable enquiries, Hubei Fleet and its ultimate beneficial owners are Independent Third Parties (other than their investment in Laibin Ningjuli). In 2014, Mr. Liang acquired 94% equity interest in Hubei Fleet from his brother, Mr. Liang Jiucheng, and other individual sellers, who are Independent Third Parties, and has since been responsible for overseeing the business of Hubei Fleet. Mr. Liang has over 20 years of experience in footwear manufacturing. Mr. Liang was supported by his nephew, Mr. Liang Jiajian who joined Hubei Fleet in 2016 and was promoted as a director of Hubei Fleet in 2022.

Our Director, Mr. Li Ning who is also a director of Li Ning Co became acquainted with Mr. Liang Jiuzhang, the major shareholder and director of Hubei Fleet, in around 2003 by reason of the business relationship between LN Group and another footwear manufacturing company that Mr. Liang previously worked at. Based on prior satisfactory working experience and business relationship with Mr. Liang and Hubei Fleet, Mr. Li was confident in their experience and expertise and believed Hubei Fleet would be a good potential joint venture partner. After our Group embarked on the multi-brand apparel and footwear business in 2019, Mr. Li approached Mr. Liang in mid 2020 on the proposed co-operation between our Group and Hubei Fleet of setting up a shoe factory. Since our Group did not have prior experience in the footwear manufacturing business, we entrust the daily operation of our shoe factory to Hubei Fleet, and remain being responsible for the accounting functions and the overall management and supervision of the shoe factory. Our Directors believe that (i) the experience, knowledge and networks of Hubei Fleet will enhance the research and development capability as well as production efficiency of our shoe factory and (ii) Hubei Fleet can benefit from this co-operation by expanding their operation scale at a relatively lower capital investment costs when compared with expanding its production facilities on its own.

Our shoe factory

To house our shoe factory, Laibin Ningjuli rented a factory building with a gross floor area of 19,915.2 square meters at an industrial park in Guangxi, the PRC from Laibin Xingyuan Asset Management Co., Ltd.* (來賓市興園資產管理有限公司) (“**Landlord**”), a state-owned enterprise, for a term from 1 January 2021 to 31 March 2026 (including a rent free period from 1 January 2021 to 31 March 2021) at a monthly rent of approximately RMB89,600. It is located at Henan Industrial Park, Fengxiang Road, Xingbin District, Laibin City, Guangxi Zhuangzu Autonomous Region, the PRC. We completed renovation of the factory building and installation of the production lines in January 2021, and commenced production in March 2021. In early 2022, Laibin Ningjuli rented an additional building with a gross floor area of 6,605.28 square meters at the same industrial park which was mainly used for warehouse purpose from the Landlord for a term from 1 March 2022 to 31 March 2026 (including a rent free period from 1 March 2022 to 31 May 2022) at a monthly rent of approximately RMB29,700. As at 31 December 2022, Laibin Ningjuli owned 6 production lines and its major equipment included 40 conventional cutting machine, 5 automatic slitter, 24 sewing machine lines and 147 computerised sewing machine. As at 31 December 2022, the capital expenditure incurred by Laibin Ningjuli for the shoe factory primarily included RMB22.9 million for acquisition and installation of equipment and RMB5.9 million for renovation of the factory building, all of which has been fully settled as at the Latest Practicable Date.

BUSINESS

We believe that in-house footwear development capability is important in ensuring future success of our Group’s own brand footwear business. As at 31 December 2022, Laibin Ningjuli had a research and development team consisting 29 employees which is primarily responsible for footwear design, research and development, mould development and the transfer of technologies applied in manufacturing different footwear models which help improve the efficiency of our production process. The shoe factory’s research and development team is led by a team leader who has over 20 years of experience in footwear research, design and manufacturing with management experience, and half of our team members has over 5 years of experience in the footwear industry. Before joining Laibin Ningjuli, the team leader had worked at other shoe factories in the PRC that manufactures sports trainers and casual trainers for other international brands. Our shoe factory possesses the capabilities across various key stages of footwear development to bring a product concept to production, including specification drawings, mould development and measurement, sizing and fit standard, pattern review and prototype development. Going forward, we will continue to focus on the research and development of casual trainers to cater for the needs of our self-owned brands.

Our shoe factory commenced operation in March 2021, and recorded increase in both actual production volume and estimated production capacity in FY2022 primarily due to, amongst others, (i) increase of our workforce, (ii) improvement of our operation efficiency, and (iii) acquisition of additional equipment at the end of 2021. In addition to manufacturing finished footwear for our self-owned brands and LN Group, we also produce certain footwear components for LN Group and other footwear manufacturers. Our manufacturing process of footwear components primarily involves cutting and sewing and is subject to different specifications and requirements for each purchase order. Our actual production volume of footwear components was approximately 88,700 units in FY2021 and approximately 148,000 units in FY2022. For FY2021 and FY2022, we maintained a relatively high and stable utilisation rate. Please see below table for the actual production volume, estimated production capacity and utilisation rate of our shoe factory for the production of footwear for the periods indicated:

	FY2021	FY2022
Actual production volume (<i>pairs</i>)	885,216	2,106,215
Estimated production capacity (<i>pairs</i>) (<i>Note 1</i>)	928,743	2,244,184
Utilisation rate (<i>Note 2</i>)	95.3%	93.9%

Notes:

1. The estimated production capacity is determined by factors including number of workers, number of working hours, estimated production per hour, design of the footwear products, complexity of the manufacturing process and the number and types of equipment in use.
2. The utilisation rate is derived by dividing the actual production volume by the estimated production capacity.
3. The above table does not include our output of footwear components. The specifications and requirements for each purchase order of footwear components are different. Without a unified and consistent measurement, it is impracticable, and may not be meaningful, to assess the related estimated production capacity and utilisation rate.

BUSINESS

Please see below a breakdown of the actual production volume of our shoe factory for the production of footwear by brands for the periods indicated:

	FY2021		FY2022	
	<i>No. of pairs of footwear</i>	<i>%</i>	<i>No. of pairs of footwear</i>	<i>%</i>
Our self-owned brands:				
– bossini.X	6,305	0.7	1,094	0.1
– LNG	3,829	0.4	16,663	0.8
LN Group	871,677	98.5	2,086,982	99.0
Other obsolete products (<i>Note 1</i>)	<u>3,405</u>	<u>0.4</u>	<u>1,476</u>	<u>0.1</u>
Total	<u>885,216</u>	<u>100.0</u>	<u>2,106,215</u>	<u>100.0</u>

Notes:

1. Other obsolete products primarily include trial products produced by our newly employed workers during induction and defective products.
2. The above table does not include our output of footwear components.

Subject to the development of the footwear market, the performance of our Group and economic conditions, we intend to maintain the production capacity of our shoe factory at its current level, and do not intend to carry out any significant expansion of our footwear OEM business.

As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, the construction of the relevant facility and the production activities of Laibin Ningjuli had been in compliance with all applicable rules and regulations in the PRC in all material respects considering that (i) Laibin Ningjuli had passed the relevant safety and environmental inspections and obtained the relevant permits, licenses and certificates as required by applicable PRC laws and regulations as well as the relevant local governmental authorities for the construction of the relevant facility and its production; (ii) according to the certificates issued by the relevant local governmental authorities and public searches conducted, Laibin Ningjuli had not been subject to any administrative action, fine or penalty in relation to its construction of the relevant facility and the production activities; and (iii) no major fire and/or production accidents or environmental pollution events had occurred since the commencement of the production activities in our shoe factory.

BUSINESS

Our footwear OEM services

In order to better utilise our excessive production capacity, we provide footwear OEM services to LN Group and other footwear manufacturers and recorded revenue of HK\$56.9 million in FY2021 and HK\$225.7 million in FY2022, amounting to 6.7% and 3.5% of our total revenue from the multi-brand apparel and footwear business for the respective year or 4.1% and 3.3% of our total revenue for the respective year. During the Track Record Period, we primarily manufactured sports trainers for LN Group, and certain footwear components for LN Group and other footwear manufacturers. Most of our revenue from footwear OEM services during the Track Record Period was attributable to LN Group. With reference to the 2021 annual report and 2022 annual results announcement of Li Ning Co, we estimated that the LN Group’s purchase of footwear from us represented approximately 0.4% and 1.4% of the LN Group’s total purchase amount in FY2021 and FY2022, respectively. Please see below a breakdown of revenue for our footwear OEM services provided to (a) LN Group; and (b) other footwear manufactures for the periods indicated:

	FY2021		FY2022	
	HK\$'000	%	HK\$'000	%
LN Group	54,430	95.7	224,914	99.6
Other footwear manufacturers	2,446	4.3	793	0.4
Total	56,876	100.0	225,707	100.0

Given that our shoe factory only commenced operation in March 2021, it recorded a gross loss of HK\$4.7 million for FY2021 primarily due to the relatively low production volume and production efficiency, and hence, a higher fixed overhead cost at the start-up stage. As our production volume and production efficiency picked up, we recorded a gross profit of HK\$7.6 million for FY2022. Please see below a breakdown of gross profit/(loss) and gross profit margin for our footwear OEM services provided to (a) LN Group and (b) other footwear manufacturers for the periods indicated:

	FY2021		FY2022	
	Gross profit/(loss)	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%
LN Group	(4,588)	–	7,382	3.3%
Other footwear manufacturers	37	1.5%	23	2.9%
Total (Note)	(4,551)	–	7,405	3.3%

Note: In order to reflect the gross profit attributed to different customers, the total gross profit has not included intra-group transactions.

BUSINESS

It is our understanding that the LN Group requires its footwear OEM suppliers (including our Group and other suppliers) to purchase raw materials from its designated suppliers at a specific price set out in the purchase order. Accordingly, LN Group’s suppliers (including our shoe factory) are not able to lower the production cost by reducing the raw material costs. As a result, the gross profit margin of footwear OEM suppliers for providing similar services to LN Group highly depends on the supplier’s production efficiency. As our shoe factory only commenced operation in March 2021 and additional time is required for our shoe factory to optimise its production efficiency, we recorded a gross loss of HK\$4.6 million for services provided to LN Group for FY2021. As our shoe factory improved its operation efficiency, we recorded a gross profit of HK\$7.4 million from our footwear OEM services provided to LN Group and recorded an increase in our gross profit margin for services provided to other footwear manufacturers in FY2022.

Principal terms of the service agreements

We have entered into a framework agreement with LN Group for a term of 1 year and enter into separate purchase orders with them for each production. Principal terms of our framework agreement include production obligations, quality standards, pricing terms and payment terms, delivery protocol, inspection and acceptance of products, return policy, confidentiality obligations and protection of trademarks and other intellectual property rights, and termination. We typically specify the product type, unit price, quantity of products and delivery timeline, raw material suppliers and raw material costs under separate purchase order for each engagement. The framework agreement does not contain any minimum purchase requirements. LN Group is entitled to return defective products to us due to quality issues upon delivery, or during the warranty period which is 24 months after such product is launched to the market. The terms of our framework agreements for production of footwear for LN Group and our self-owned brands are substantially the same.

Since other footwear manufacturers only engage us for manufacturing certain footwear components on an as-needed basis from time to time, instead of entering into framework agreements with them, we typically enter into separate agreements with them for each engagement setting out the principal terms regarding production obligations, product type, unit price and quantity of products, provision of raw materials (if applicable), delivery arrangement and timeline, and payment terms. As we are only engaged to produce certain part of a footwear, such agreements do not include any terms on protection of trademarks and intellectual property rights, and the warranty provided by us on product quality does not extend to post-delivery.

Whilst the pricing for each purchase order varies depending on the design of the footwear products and the complexity manufacturing procedures, the basis of price determination for purchase orders from LN Group and other footwear manufacturers are substantially the same and comprises mainly raw material costs (if applicable), ordinary loss during production and processing fees.

BUSINESS

During the Track Record Period, we had not experienced any difficulties in performing the purchase orders undertaken by us, nor had we experienced any material disruption of our production process or had any material dispute with our customers.

Future plans for our provision of footwear OEM services

Whilst LN Group accounted for most of the production volume of our shoe factory in FY2021 and FY2022, we had and will continue to prioritise design, research and development and production for our self-owned brands. It is our procurement policy for our self-owned brands to first refer any purchase orders for casual trainers and vulcanised shoes to our shoe factory before approaching other OEM suppliers. In considering whether to undertake the purchase order from our self-owned brands, our shoe factory will consider, amongst others, the complexity of the production process, the estimated lead time versus the required delivery time, the expertise and production capacity of our shoe factory. The number of “LNG” and “bossini.X” branded casual trainers and vulcanised shoes sold in FY2021 and FY2022 was approximately 15,700 pairs and 32,700 pairs respectively. Approximately 64.5% and 54.3% of the “LNG” and “bossini.X” branded footwear sold in FY2021 and FY2022 respectively was produced at our shoe factory and the remaining was produced by other OEM manufacturers primarily because our shoe factory could not meet the required delivery timeline, and therefore, did not take up the relevant orders. As “LNG” and “bossini.X” do not provide production blueprint to its footwear OEM suppliers and our shoe factory is still at a development stage, additional time is required for our shoe factory to formulate the manufacturing process. Going forward, we will focus on the research and development of casual trainers to cater for the needs of our self-owned brands. We believe that when our shoe factory becomes more experienced in the development and production of footwear, it will be able to satisfy a tighter delivery schedule and undertake more purchase orders from our own brands in the future.

Furthermore, since 2022, in order to create synergy with the footwear business of the Clark Group, our shoe factory is in the progress of developing prototypes of certain casual footwear for the Clark Group for future production. It is expected that we will complete the development of approximately 5 to 10 footwear prototypes for “Clarks” by the end of 2023. Subject to the progress and outcome of the prototypes, we should be in the position to take orders from “Clarks” for the production of certain of its casual footwear models in the first half of 2024. As casual trainers and vulcanised shoes are not the key products of “Clarks”, we do not expect the purchase orders, if any, from “Clarks” would be significant or would fully utilise our production capacity. To the extent we still have excessive capacity after fulfilling orders from our own brands, we will continue to provide footwear OEM services to LN Group and other footwear manufacturers. Accordingly, LN Group is likely to remain as our major customer for our footwear OEM services in the foreseeable future. As we do not intend to expand the scale of our shoe factory and as orders from our own brand pick up, we do not expect to record any material increase in our revenue from footwear OEM business (whether from LN Group or others) in the foreseeable future.

BUSINESS

Procurement

Outsourcing Our Production

We outsource the production of most of our products to selected OEM suppliers. We believe that, by outsourcing most of the manufacturing process to third parties, we can focus on our strengths in design and marketing of our brands and products, and to lower the operation and financial risks and expenses relating to production facilities and labour management. Our OEM suppliers procure raw materials from our approved raw material suppliers and manufacture our products by themselves to provide us with the finished products. During the Track Record Period, we had over 180 OEM suppliers who are mostly based in Asia, including the PRC, Vietnam, Cambodia, India and Indonesia. Except one of our footwear OEM suppliers has a minority interest in one of our subsidiaries, all of our other OEM suppliers during the Track Record Period are Independent Third Parties.

We maintain a stable business relationship with our OEM suppliers. We generally enter into framework agreements with our OEM suppliers, and place separate orders with them when necessary depending on the market demand. After launching our products to the market, we monitor the sales and inventory levels as well as market trends and demands regularly to evaluate the need of placing additional purchase orders, and maintain regular communications with our OEM suppliers on any upcoming purchase orders. During the Track Record Period, we had not experienced any difficulties in sourcing suitable OEM suppliers or obtaining finished products from OEM suppliers, nor had we experienced any material disruption of supply of products from our OEM suppliers.

Principal terms of our framework agreements with OEM suppliers generally covers terms such as supplier’s qualifications, production obligations, quality standards, pricing terms and payment terms, delivery protocol, inspection and acceptance of products, return policy, confidentiality obligations and protection of trademarks and other intellectual property rights. We typically specify the product type, unit price, quantity and delivery timeline in each purchase order we place with the OEM suppliers. None of the framework agreements with OEM suppliers contain any minimum purchase requirements. Our OEM suppliers typically provides warranty to us as to the quality, description and specifications of the products. We are entitled to return products due to quality issues upon delivery, or during the warranty period (if applicable) when we discover any defect in the products. Our OEM suppliers are prohibited from manufacturing and selling products that are substantially identical to the products ordered by us to anyone other third parties. In the event of any breach of contract, we are entitled to terminate the agreement with immediate effect. During the Track Record Period, we did not have any material disputes with our OEM suppliers.

BUSINESS

Selection and evaluation of OEM suppliers

We have a stringent review and quality control procedures over our OEM suppliers and finished products. We maintain and regularly review a list of selected OEM suppliers based on, among other things, their ability to meet our product requirements, production capacity, existing brand customers, quality management, production qualifications, location, price, reputation and ability to meet our delivery timeline. We also assess our existing OEM suppliers annually with reference to the above criteria as well as their historical performance.

We work closely with our OEM suppliers during each step of the process and conducts quality checks upon final product delivery to ensure the products manufactured meet our quality control standards. Pursuant to the framework agreements with the OEM suppliers, we are entitled to conduct onsite quality inspection at the manufacturing facilities of our OEM suppliers without prior notice and to take samples of raw materials, packaging and finished products for testing during the manufacturing process. Please refer to the sub-section headed “Quality Control” in this section for further details.

Raw Materials

Principal raw materials include wool, cotton, linen and synthetic materials for our apparel; and leather, sole units, packaging materials and other non-leather materials for our footwear. Although we do not provide raw materials to our OEM suppliers, we have a list of approved raw material suppliers and require our OEM suppliers to procure raw materials in accordance with our designs and specifications from our approved raw material suppliers in order to control the quality of raw materials and the finished products. During the Track Record Period, raw materials used for production of our products were mainly originated from the PRC, India, Vietnam, Cambodia and Taiwan. Please refer to the sub-section headed “Quality Control” for more details of our quality control measures for raw materials.

The prices of the major raw materials for our products experienced moderate fluctuation during the Track Record Period which would in turn affect the fees charged by our OEM suppliers. We monitor the prices of our major raw materials and the fees charged by our OEM suppliers regularly and may re-negotiate the production price with our OEM suppliers and/or adjust the recommended retail prices of the relevant products to minimise our exposure to the additional purchase costs. We typically can pass on the increase in purchase costs to our customers.

Inventory and Logistics Management

We place emphasis on optimising our logistics and inventory management. We believe that our efficient and responsive inventory management system enables us to shorten our products’ time to market, increase rates of inventory turnover and maintain optimal inventory levels, thereby helping us remain competitive in our fast-paced industry.

BUSINESS

Warehousing Facility and Product Delivery

We operate distribution centres by ourselves, or by engaging third-party warehousing service providers, at the major geographical regions of our directly-operated stores to support the local warehousing, packaging, distribution and inventory tracking functions of our finished products. As at 31 December 2022, we have distribution centres in the UK, the US, Netherlands, the PRC and Japan for our “Clarks” operation and a distribution centre in the PRC for our Other Brands. We believe these facilities, coupled with the services provided by third-party warehousing service providers, will provide us with sufficient warehousing capacity to fulfil our business requirements in foreseeable future.

Our products are delivered directly from our distribution centres to our retail stores or customers (including wholesale customers, distributors and online customers) by independent logistics service providers by land, shipment and air transportation, as appropriate. We enter into framework agreements with logistics service providers pursuant to which, the service providers will bear the risks during transportation, and are responsible for any damage resulting from delayed delivery. During the Track Record Period, we did not experienced any material delays or improper handling of orders that materially and adversely affected our business operations.

Inventory Control

Our inventory mainly comprises finished products of our own brands and raw materials for our shoe factory. We maintain an inventory and sales management system at our distribution centres and our retail stores to produce real time information of inventories. Most of our retail stores are equipped with a standard information management system (including POS terminals). Each of our finished product is coded under a barcode system for identification in our POS, which is linked to our inventory and sales management system. Through scanning the barcode, sales information from each of our store’s POS terminals is collated and uploaded to our management system on a real-time basis which enables our headquarters to timely analyse and record sales details and track inventory. We monitor our days of inventory regularly and carry out inventory audit check at our stores annually. If any variance in the stock level is identified, a recount will be performed, and if such various is confirmed, an adjustment will be made in the internal inventory system to ratify the variance.

Our inventory sharing and allocation system can enhance consumers’ shopping experiences by optimising product replenishment, shipment coordination and inventory control. Through this system, we closely monitor real-time inventory levels of both excess inventory and products in high demand. When a certain product is out of stock in a given retail store, this system enables our store personnel to quickly locate an available item from another store nearby, place an order and ship the item directly to the consumer in the shortest possible time frame.

BUSINESS

To monitor the inventory level of our distributors, we monitor their sales and inventory records through our POS system or the sales report submitted by them, and their purchase orders. We also undertake other measures to prevent inventory surplus. For example, our planned production volume is based on a study of historical data which allows us to be more precise in specifying the volume we need. In the case of off-season products, we adopt several measures to ensure they can be cleared efficiently, such as long-term and short-term promotional discounts at retail stores and online channels.

Quality Control

Our commitment to quality is key to our brand image, and we have established a strict quality control system and a set of quality standards. As at 31 December 2022, our quality control team had 211 employees.

We have established a quality management system covering product design and development, procurement and after-sales services as follows:

- ***Product design and development*** – We implement quality control processes at the product design and development stage to ensure that our products will be free from quality issues at the subsequent manufacturing and retail sales stages. In particular, our product designers communicate closely with our supply chain team regarding quality issues during the product development process. From the development of a design concept, production of product prototype to the selection of raw materials and implementation of crafting techniques, our design team and supply chain team work alongside and provide mutual feedbacks to each other so as to further fine tune the product design and address outstanding quality issues.
- ***Selection of raw materials*** – We require our OEM suppliers to procure raw materials from our approved suppliers to ensure that the raw materials as well as finished products can satisfy our product requirements and specifications. Our “Clarks” sourcing team also visits to the major manufacturing facilities of the OEM suppliers to monitor the raw material testing and auditing process from time to time.
- ***Selection of OEM suppliers*** – We conduct a comprehensive selection process to ensure our OEM suppliers meet our quality control standards. We generally require our new OEM suppliers to provide relevant documents and materials relating to their quality control policies, processes and accreditations for our review. We conduct assessments over our OEM suppliers annually based on a robust set of criteria including but not limited to the quality of crafting techniques, the proper use of fabrics and fibres, and the pass-rates of quality control tests conducted over finished products.

BUSINESS

- **Product quality inspections** – We carry out product quality inspections when we first receive finished products from our OEM suppliers before dispatching them to the market for sale. In particular, we assess whether the finished products are suitable for sale by inspecting the overall appearance and reviewing the results of test reports. Our “Clarks” sourcing team also conducts in-line auditing and lab tests at the major manufacturing facilities of the OEM suppliers from time to time to ensure the production process and finished products for “Clarks” are in line with our standard.
- **Returns and penalties** – We adopt a strict product-return policy with regard to products supplied by our OEM suppliers which fail to satisfy our quality standards. Pursuant to the framework agreement with our OEM suppliers, they typically provides warranty to us as to the quality, description and specifications of the products. We are entitled to return all substandard products to our OEM suppliers upon delivery or during the warranty period (if applicable) and require them to repair the defects or replace the products until they meet the quality standards specified at the costs of the OEM suppliers.
- **After-sales services** – We provide customer-centric after-sales services to address any concerns raised by our customers relating to the quality of our products. Upon receiving relevant enquiries or complaints from our customers with regard to product quality, our customer service officers and/or retail staff will conduct a preliminary review of the matter and, if necessary, report to the upper-level personnel, who will then conduct a further review. We will also arrange, if necessary, for follow-up inspections or rectifications of the products concerned. During this process, we will communicate closely with the relevant customers to identify acceptable solutions for the matter, including replacement of the product concerned. We are entitled to return the defective products to our OEM suppliers during the warranty period (if applicable) under the framework agreements. Regular trainings in relation to product information, inter-personal and communication skills, market trends will be provided to the relevant staff to enhance the over-all consumer experience of our end-customers.

Product Recall for “Clarks” Breeze and Brinkley Women’s Shoes in Navy and Dark Navy

In the third quarter of 2022, we became aware that the amount of azo dyes contained in the fabric of the shoe’s upper in one of our footwear products exceeded the legally permitted level according to local law (“**Incident**”). Benzidine and dimethoxybenzidine are chemicals found in azo dyes, which have been used to colour or dye a large range of products, including fabrics and leathers, but the extent to which azo dyes can be used is now restricted by some countries. Prolonged and direct contact with the shoes’ upper material can expose the wearer to the chemicals benzidine or dimethoxybenzidine, which are toxic and can cause adverse health effects.

BUSINESS

In response, we immediately conducted sample testing on footwear produced using the same affected fabric from different distribution centres to ascertain the scale of the Incident. While only some of the samples have tested positive for the presence of azo dyes, out of an abundance of caution, we have voluntarily recalled eight styles of Breeze and Brinkley women’s footwear in navy or dark navy-blue colours sold during the spring/summer 2022 season, amounting to approximately 138,000 pairs of footwear. Most of the affected footwear were sold in the US and some were sold in the UK and other jurisdictions in smaller quantities. Considering the relevant test results and to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, the presence of excessive level of azo dyes in some of our footwear came from the fabric provided by one of the raw material suppliers.

In order to prevent recurrence of similar incidents, we have implemented the following measures:

- ceased production of the footwear (by reference of article number) that were affected by the recall;
- conducted a comprehensive internal review of our quality control process as well as our material specification process and sourcing strategy to ensure our products continue to comply with the applicable chemical limits and guidelines in the future; and
- terminated our business relationship with the supplier of the affected fabric and continue to work with other suppliers to ensure that they fully comply with our restricted substances policy and applicable law.

Given that (i) we have recalled all affected products which were only in the market for a relatively short period of time; (ii) we had not been subject to any product liability claim from our customers or penalty from government authorities in relation to the Incident as at the Latest Practicable Date; and (iii) sufficient provision of HK\$11.7 million were made for the Incident as at 31 December 2022, our Directors are of the view that the Incident did not have any material adverse impact on our results of operations or financial conditions. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not received any major product return request from our customers, nor did we experience any material complaints from our customers, material product liability claims or material penalty from government authorities for product quality issues.

OUR SPORTS EXPERIENCE BUSINESS

Our sports experience business comprises (i) sports destination development business (including sports parks, sports centres and ice-skating rinks), and (ii) sports team and event management business.

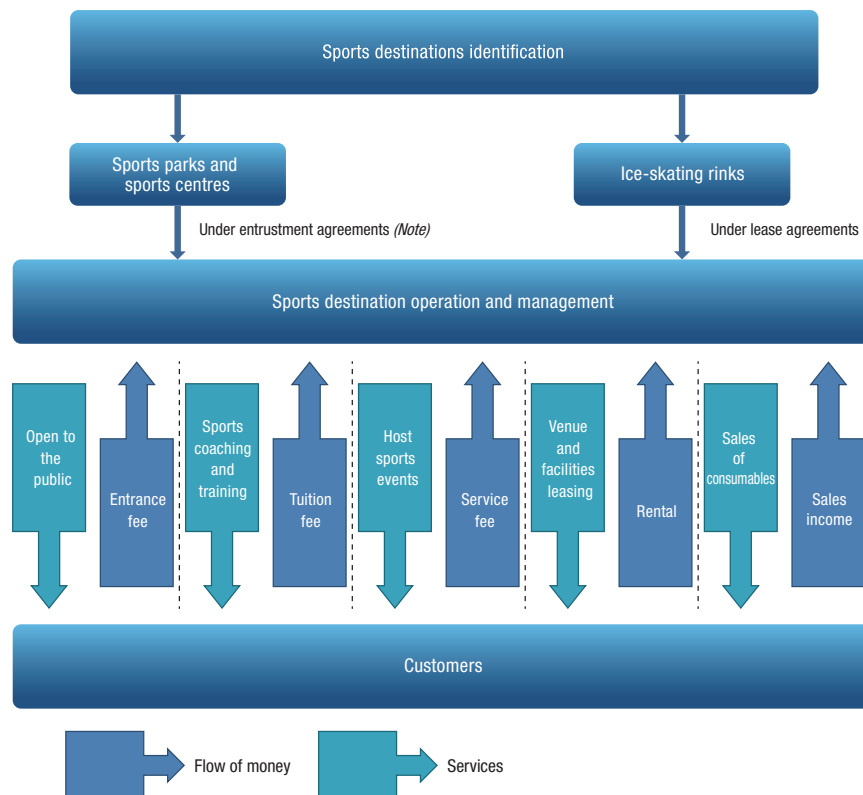
BUSINESS

Our Sports Destination Development Business

Our sports destination development business comprises the management and operation of sports parks, sports centres and ice-skating rinks in the PRC. We operate our sports destinations through an asset-light model where we do not own the sports destinations and are not required to invest in the construction and development. We typically operate our sports parks and sports centres through an entrustment model and lease ice-skating rinks at shopping malls from the landlords for our operation. We also recorded a small amount of revenue from our provision of sports rehabilitation services to sports teams and organisations.

We (as operator) started to cooperate with mostly local governments (as owner) in managing and operating sports parks and sports centres under our brand of “Li Ning Sports Park” (李寧體育園) by way of the entrustment model in the PRC since 2015 and generate revenue from our services provided to third parties thereon. In addition, we may receive subsidies on the basis that we will be providing public services to the community, such as hosting charitable sports events and exhibitions and providing free or discounted entrance tickets to certain public spectrum. Most of the sports parks and sports centres operated by us were owned by local governments. Leveraging on our reputation and solid experience in sports parks and sports centres management, in late 2019, we further diversified and expanded our business to the management and operation of ice-skating rinks by acquiring “All Star Skating Club” (全明星滑冰俱樂部), a chained-brand of indoor ice-skating rinks in the PRC.

Please see below an operational flow chart of our sports destinations business segment:



Note: We may receive subsidies for operation of sports parks and sports centres.

BUSINESS

Services provided at our sports destinations

With a mission of promoting sports culture in the local community, we operate our sports destinations, host international and national sports competitions and events, and provide training and coaching services for local residents.

We offer a wide variety of sports coaching and training courses delivered by professional and skilful coaches and trainers for different age groups and people at different skill levels. The type of trainings offered generally depends on the sports facilities available at our sports destinations. In particular, our All Star Skating Club has employed a team of professional coaches comprising retired national athletes and professional trainers.

We also aim to promote sports and encourage the public’s participations in sports activities among the local neighbourhood communities. To this end, we hold, either by ourselves or by renting our sports venues and facilities to other sports organisations, a wide range of sports-related events for professional sports athletes and the general public at our sports destinations from time to time. In particular, our “All Star Ice Skating Club” (全明星滑冰俱樂部) was authorised by the Ice Skating Institute Asia to hold the All-Star Asian Figure Skating Invitational (全明星亞洲花樣滑冰邀請賽), which is a national-level junior ice skating competition in the PRC.

To facilitate the overall sports experiences, we also offer ancillary services such as provision of sports-related apparel, footwear and equipment and food by introducing retail stores and restaurants at our sports destinations. In particular, we have retail stores offering a wide selection of ice skating-related consumables under various brands targeting at youngsters at our ice-skating rinks.

We have specific rules to ensure the safety of all guests and visitors of our sports destinations. We have adopted stringent policies with respect to the procurement and maintenance of on-site sports equipment, safety of visitors and staff (including emergency preparedness), purchase of public liability and property insurance policies, onsite security, crowd control, and public health and sanitation. During the Track Record Period, we had not encountered any material casualty accident at our sports destinations.

Revenue generated at our sports destinations primarily includes (i) entrance fees from visitors of such sports destinations, (ii) tuition fees from provision of relevant sports coaching and training on the site to institutions and individuals, (iii) service fees for hosting sports events on the site, (iv) rental income from leasing of sites to retailers and restaurants, and (v) sales of consumables at the sports destinations. Costs and expenses in relation to the management of sports destinations primarily includes (i) rental (for ice-skating rinks), (ii) utilities and other expenses for ancillary services to support daily operation, such as security and cleaning, (iii) salaries to coaches, and (iv) maintenance fees for the sports destinations.

BUSINESS

We also recorded a small amount of revenue from our provision of sports rehabilitation services at our rehabilitation centre located in Beijing, which had commenced operation since 2017, to various national and local sports teams.

The table below provides a breakdown of revenue generated from our sports destination development business segment for the periods indicated:

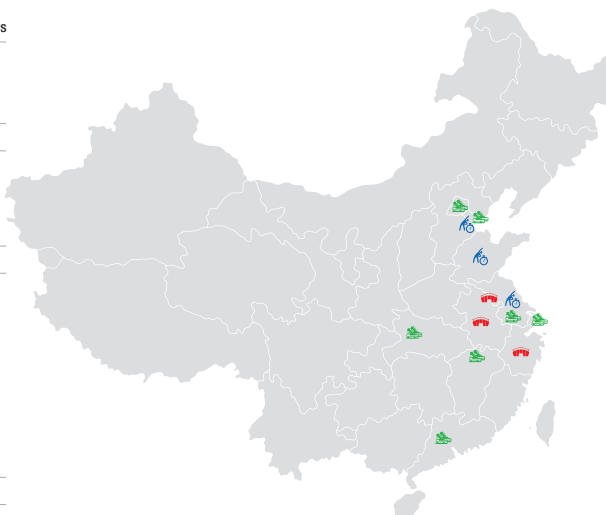
	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Ice-skating rinks	88,789	52.5	145,704	54.1	130,474	53.5
Sports parks and sports centres	71,881	42.5	113,931	42.3	109,401	44.8
Others (Note 1)	8,483	5.0	9,730	3.6	4,201	1.7
Total	169,153	100.0	269,365	100.0	244,076	100.0

Notes:

1. “Others” primarily refers to the provision of sports rehabilitation services to sports teams and organisations.
2. The above table does not include subsidies received from local government for operation of sports parks and sports centres which are recognised as other income.

As at the Latest Practicable Date, we operated nine sports parks and sports centres in different regions of the PRC, and eleven ice-skating rinks in first-tier and second-tier cities in the PRC. The following map shows the geographical distribution of our sports parks, sports centres and ice-skating rinks as at the Latest Practicable Date:

Sports destinations	Region	No. of destinations
 Sports park	Zhejiang	3
	Yangzhou	1
	Anhui	1
	Total	5
 Sports centre	Tianjin	2
	Shandong	1
	Jiangsu	1
	Total	4
 Ice-skating rinks	Tianjin	3
	Beijing	2
	Shanghai	2
	Hubei	1
	Suzhou High-tech Zone	1
	Guangzhou	1
	Hangzhou	1
	Total	11



BUSINESS

Management of sports parks and sports centres

As at the Latest Practicable Date, we operated nine sports parks and sports centres supporting a wide array of sports activities and cater for the needs of the local community in different parts of the PRC. Our sports parks are well-equipped with various sports venues and facilities for a variety of ball games including football, basketball, badminton, table tennis, volleyball, squash, indoor and outdoor swimming pools, fitness centres, multi-functional sports arenas. Our sports centres are usually smaller in terms of areas, as compared to our sports parks, and are more for leisure than for professional sports activities. Each of our sports centres houses a number of courts for different ball games (such as basketball, badminton and table tennis courts), an indoor swimming pool, a fitness centre and a multi-functional sports arena.

The revenue contribution among our various revenue sources from our operation of sports parks and sports centres remained relatively stable during the Track Record Period except for the closure of restaurant since FY2021. The following table provides a breakdown of revenue by revenue source from our operation of sports parks and sports centres for the periods indicated:

	FY2020		FY2021		FY2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Entrance fees and tuition fees	29,599	41.1	58,889	51.5	66,025	60.2
Sales of goods	12,823	17.8	28,917	25.3	21,974	20.0
Rental	4,859	6.7	6,753	5.9	7,052	6.4
Restaurant	17,322	24.0	–	–	–	–
Others (<i>Note</i>)	7,530	10.4	19,885	17.3	14,723	13.4
	<u>72,133</u>	<u>100.0</u>	<u>114,444</u>	<u>100.0</u>	<u>109,774</u>	<u>100.0</u>
Revenue before VAT						
Less: VAT	(252)		(513)		(373)	
Revenue after VAT	<u>71,881</u>		<u>113,931</u>		<u>109,401</u>	

Note: “Others” primarily includes hosting of sports events and cultural activities.

During the Track Record Period, charges of the facilities at our sports parks and sports centres ranged from RMB10 to RMB600 per hour, depending on the type of sports facilities, the period (i.e. whether on weekday or holiday) and the location of the sports destination. The entrance pass of our swimming pools and gym rooms is priced at RMB99 to RMB500 per month and RMB999 and RMB3,200 per year. We also offer free entrance to the public during specified period for certain facilities. To cater for the different needs of local residents, we offer various types of training courses and packages. Tuition fee of our training courses is typically determined based on the types of sports, training level (such as beginner, intermediate or advanced), tutor-to-student ratio, number of lessons and location of the sports destination. Tuition fee of our beginners course is priced between RMB500 and RMB15,000 per course.

BUSINESS

Please see below summary of the sports parks and sports centres under our management as at the Latest Practicable Date:

Sports Park

No.	Sports park/sports centre	Location	Approximate site area (sq. m.)	Major facilities	Opening year	Expiry year of the entrustment agreement (Note)
1.	Yangzhou Li Ning Sports Park 揚州李寧體育園	Guangling, Yangzhou	52,500	Indoor swimming pools, badminton courts, table-tennis courts, basketball courts, light volleyball courts, football pitches, tennis and squash courts, gymnasium, multifunctional stadium and fitness centre	2015	2035
2.	Hefei Nanyan Lake Li Ning Sports Park 合肥南澗湖李寧體育園	Hefei, Anhui	300,000	Indoor swimming pools, integrated table tennis and badminton courts, basketball courts, tennis courts, multifunctional stadium and fitness centre	2020	2035
3.	Tongxiang Li Ning Sports Park 桐鄉李寧體育園	Tongxiang, Zhejiang	150,000	Gym room, summer camp training center, outdoor tennis court, outdoor basketball court, outdoor leisure pool and other facilities	2021	2031
4.	Ningbo Hangzhou Bay Li Ning Sports Park 寧波杭州灣李寧體育園	Hangzhou Bay, Ningbo, Zhejiang	32,800	Comprehensive gymnasium with a 50-meter standard swimming pool, a multi-functional hall with basketball and badminton courts, swimming pools, gyms, football fields, and tennis courts	2018	2038
5.	Hangzhou Li Ning Sports Park 杭州李寧體育園	Hangzhou, Zhejiang	68,800	Main cultural and sports centre, comprising riverside promenade area, recreational area, sports cultural area, parent-child sightseeing area, green landscape area	2022	2032

Sports Centre

No.	Sports park/sports centre	Location	Approximate site area (sq. m.)	Major facilities	Opening year	Expiry year of the entrustment agreement (Note)
6.	Tianjin Li Ning Sports Centre 天津李寧運動中心	Xiqing, Tianjin	29,400	Basketball arena, an integrated table tennis and badminton arena, a natatorium and a 2,000-seater multifunctional coliseum.	2019	2028
7.	Tianjin Chilong Li Ning Cultural and Sports Centre 天津赤龍李寧文體中心	Xiqing, Tianjin	15,000	Sports complex comprising table tennis and badminton arena, swimming pool, gym and a multifunctional coliseum.	2020	2040
8.	Linyi Li Ning Sports Centre 臨沂李寧運動中心	Linyi, Shandong	60,100	Badminton courts, basketball courts, tennis and squash courts, swimming pool, gym and yoga studios, and multi-functional activities room	2018	2037
9.	Nantong Li Ning Sports Centre 南通李寧運動中心	Gangzha, Nantong, Jiangsu	6,000	Sports complex comprising a natatorium, an integrated sports arena, a fitness centre with fitness monitoring equipment	2019	2028

Note: The year of expiry has not taken into account of the effect of any renewal.

BUSINESS

Leveraging on our experience and reputation in the sports venues operation and management industry, we have gradually expended our sports park and sports centre portfolio. The following table sets forth the changes in the number of our sports parks for the periods indicated.

	FY2020	FY2021	FY2022
Number of sports parks at the beginning of the period	5	7	9
– Add: New sports parks	2	2	–
– Less: Closure of sports parks	<u>–</u>	<u>–</u>	<u>–</u>
Number of sports parks at the end of the period	<u>7</u>	<u>9</u>	<u>9</u>

Subject to the market conditions and unforeseeable events, we currently expect to commence operation of 3 new sports parks through entrustment model, including one sports park in each of Jiangxi Province and Zhejiang Province in the second quarter of 2023, and one sports park in Anhui Province in the third quarter of 2023.

Principle terms of the entrustment agreements

All of our sports parks and sports centres are operated under the entrustment model with mostly local government who are the owners of the sports parks and sports centres. Under this model, owner of the sports parks and sports centres, will be responsible for the constructions and the related expense, and we, as operator, will be responsible for the management and operation of the sports parks and sports centres and the related expenses. We are entitled to the revenue received from third parties and generated from the services and products provided by us during the operation of sports parks and sports centres. In addition, we may receive subsidies on the basis that we will be proving public services to the community, such as hosting charitable sports events and exhibitions and providing free or discounted entrance tickets to certain public spectrum.

We entered into entrustment agreement in respect of each of sports parks and sports centres with the relevant property owner. Salient terms of these agreements typically contain provisions as to entrustment period, specifications of the sports parks and sports centres, rights and obligations of the operator, general operation of the sports destination, subsidies and payment term, renewal (if applicable), and termination. Typically, the property owners (as entrusting party) are responsible for upgrading, alteration and maintenance in relation to the structure of the sports destinations whereas we (as operator) are responsible for daily operating costs of the sports destinations, such as expenses for utilities, property management, security and cleaning, and maintenance fees for the daily wear and tear. Subsidies are typically granted at a fixed amount pursuant to the payment schedule in the agreement. Our entrustment agreements are typically in a term of 10 to 20 years.

BUSINESS

As confirmed by Frost & Sullivan, the entrustment model adopted by our Group, and the terms thereof, are in line with the market norm. As further confirmed by our PRC legal advisers, given that (i) there is no laws or regulations in the PRC, which explicitly prohibits entrustment operation of sports parks and sports centres; and (ii) the relevant entrustment agreements in respect of each of sports parks and sports centres were entered into between the entrusting parties and us after arm’s length negotiations, and no terms of such agreements would violate mandatory rules and render the entire agreements void, such entrustment model, and the terms thereof, are in full compliance with the relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

Management of ice-skating rinks

As at the Latest Practicable Date, we operated eleven ice-skating rinks under the brand of “All Star Ice Skating Club” (全明星滑冰俱樂部) located in some of the first-tier and second-tier cities in the PRC. Our ice-skating rinks are well-equipped with professional ice skating facilities and equipment suitable for various types of ice skating.

All of the ice-skating rinks managed by us are located at shopping malls and are leased by us (as tenant) from the owners (as landlord) for operation at our own costs and expenses. We typically enter into leases of the ice-skating rinks for a term of 15 to 20 years. During the Track Record Period, we had not experienced any material breach of the leases for our ice-skating rinks or any difficulties in renewing our existing leases for our ice-skating rinks operations. In the event of any termination of leases or eviction, we believe that suitable alternative location can be identified for our ice-skating rinks operation without material disruption to our business or financial performance.

Revenue mix among our various revenue sources from our ice-skating rinks remained relatively stable during the Track Record Period except we received a sponsorship fee of HK\$9.9 million, representing 7.4% of the total revenue from this business, in FY2022. The following table provides a breakdown of revenue by revenue source from our ice-skating rinks for the periods indicated:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Entrance fees and tuition fees	90,884	98.9	148,893	98.8	122,788	91.2
Sponsorship fee income	–	–	–	–	9,925	7.4
Others (Note)	1,035	1.1	1,766	1.2	1,863	1.4
Revenue before VAT	91,919	100.0	150,659	100.0	134,576	100.0
Less: VAT	(3,130)		(4,955)		(4,102)	
Revenue after VAT	88,789		145,704		130,474	

Note: Others primarily includes renting of equipment and sales of consumables.

BUSINESS

We offer different packages for visitors of our ice-skating rinks, including one-off entrance ticket and entrance pass for unlimited entrance on monthly, quarterly, semi-annually and annually basis. During the Track Record Period, our one-off entrance fee ranged from RMB70 to RMB100, depending on the location of the ice-skating rink, and our entrance pass is priced at RMB580 per month to RMB5,888 per year. Our tuition fee ranged from RMB300 to RMB350 per lesson, depending on the training level (such as beginner, intermediate or advanced) and location of the sports destination, and we offer discount to customers who purchased a considerable number of lessons in advance.

Please see below summary of the ice-skating rinks under our management as at the Latest Practicable Date:

No.	Ice-skating rinks	Location	Approximate site area (sq. m.)
1.	All-Star Beijing Solana Ice Rink* 全明星北京藍色港灣國際商區冰場	Chaoyang District, Beijing	1,300
2.	All-Star Beijing Longhu Changying Paradise Walk Ice Rink* 全明星北京龍湖長楹天街冰場	Chaoyang District, Beijing	2,000
3.	All-Star Shanghai Mercedes – Benz Arena Ice Rink* 全明星上海梅賽德斯—奔馳文化中心冰場	Pudong New Area, Shanghai	2,109
4.	All-Star Shanghai Incity MEGA Ice Rink* 全明星上海印象城冰場	Jiading District, Shanghai	3,146
5.	All-Star MIXC TIANJIN Ice Rink* 全明星天津萬象城購物中心冰場	Hexi District, Tianjin	2,900
6.	All-Star Tianjin Ocean Future Plaza Ice Rink* 全明星天津遠洋未來廣場冰場	Hedong District, Tianjin	1,350
7.	All-Star Tianjin Joy City Shopping Center Ice Rink* 全明星天津大悅城購物中心冰場	Nankai District, Tianjin	1,500
8.	All-Star Wuhan International Plaza Shopping Center Ice Rink* 全明星武漢國際廣場購物中心冰場	Jiangnan District, Hubei	2,100
9.	All-Star Suzhou Longhu Shishan Paradise Walk Ice Rink* 全明星蘇州龍湖獅山天街冰場	Suzhou High-tech Zone	2,500
10.	All-Star Guangzhou Paso Plaza Ice Rink* 全明星廣州百信冰場	Baiyun District, Guangzhou	3,700
11.	All-Star Hangzhou Longhu Binjiang Paradise Walk Ice Rink* 全明星杭州龍湖濱江天街冰場	Binjiang District, Hangzhou	2,500

BUSINESS

We maintained a stable portfolio of ice-skating rinks during the Track Record Period. The following table sets forth the changes in the number of our ice-skating rinks for the periods indicated.

	FY2020	FY2021	FY2022
Number of ice-skating rinks at the beginning of the period	12	12	11
– Add: New ice-skating rinks	1	–	–
– Less: Closure of ice-skating rinks (<i>Note</i>)	<u>(1)</u>	<u>(1)</u>	<u>–</u>
Number of ice-skating rinks at the end of the period	<u>12</u>	<u>11</u>	<u>11</u>

Note: The closure of the ice-skating rinks in Shenzhen was primarily due to the continuous loss suffered by such ice-skating rinks.

Subject to the market conditions and unforeseeable events, we currently expect to commence operation of 2 new ice-skating rinks through leasing in Beijing in the third quarter of 2023.

Site selection and expansion of sports destinations

Our long-term strategy is to build a comprehensive sports destinations network and we have been dedicating our effort to promote a sportive and healthy lifestyle in the community. Echoing the PRC government’s strategy to promote nationwide physical fitness, we look for cooperation with different prospective contracting parties through an asset-light model. We have been selecting suitable cooperation opportunities to expand and diversify our sports destinations management portfolio.

In considering whether to undertake the operation of a sports park and sports centre, we consider a number of factors, such as amount of subsidies, our existing sports parks and sports centres management portfolio, the estimated operating costs, the estimated demand from local community and the estimated revenue, geographical location, government development plan of the area and level of competition.

We believe site selection is crucial to the success of ice-skating rinks. In selecting suitable ice-skating rinks, we generally take into account of, amongst others, the geographical location and level of competition, customer flow, the consumption capacities of the relevant region, the estimated demand and revenue to be generated, the estimated operation costs, industry and market trends, and our existing ice-skating rinks networks. Going forward, we intend to develop and expand our ice-skating rinks business in cities with strong consumption capacities, and capitalise on the boom in winter sports to provide the public with skating experience and various training.

BUSINESS

Our Sports Team and Event Management Business Segment

Our sports team and event management business primarily comprises e-sports club management and sports event management. It is our strategy to capture and maximise the commercial values of our sports resources, and encourage social participation in sporting activities through operation of e-sports clubs as well as coordination of sports events and provision of sports-related marketing services.

During the Track Record Period, most of our revenue from sports team and event management business was generated from sports event management. The table below sets forth a breakdown our revenue from sports team and event management business for the periods indicated:

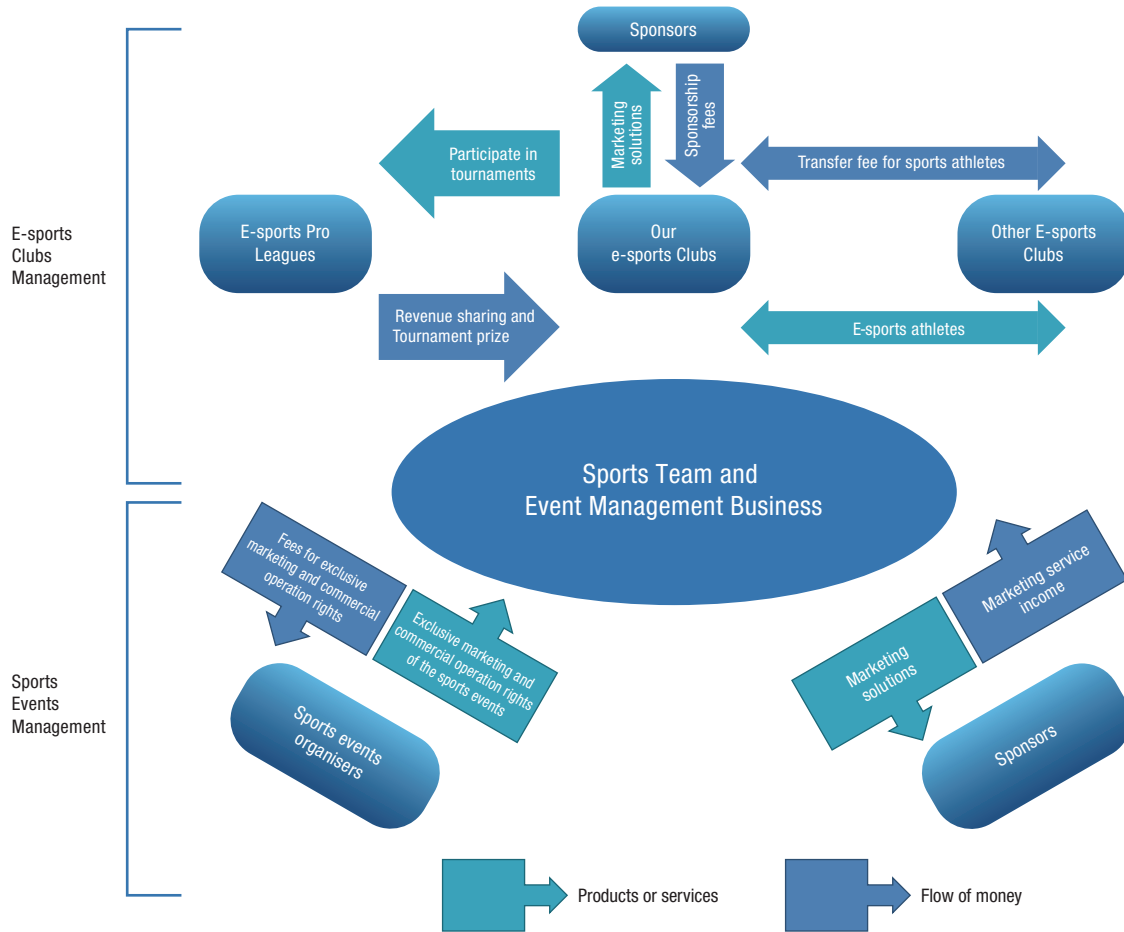
	FY2020		FY2021		FY2022	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Sports event management	198,558	94.2	227,862	87.3	224,744	87.5
Sports team management	<u>12,331</u>	<u>5.8</u>	<u>33,188</u>	<u>12.7</u>	<u>32,024</u>	<u>12.5</u>
Total	<u>210,889</u>	<u>100.0</u>	<u>261,050</u>	<u>100.0</u>	<u>256,768</u>	<u>100.0</u>

Our sports event management business recorded a gross profit of HK\$65.8 million, HK\$65.3 million and HK\$65.5 million, with a gross profit margin of 33.1%, 28.6% and 29.1%, for FY2020, FY2021 and FY2022 respectively.

Our sports team management business recorded a gross loss of HK\$18.7 million, HK\$6.0 million and HK\$33.4 million for FY2020, FY2021 and FY2022 respectively. The gross loss in FY2020 was primarily due to the increase in our costs for recruitment of famous e-sports athletes. We improved our e-sports teams' performance, especially our “LNG Esports” team which ranked highly in the League of Legends Pro League in 2021 and boosted our revenue from e-sports tournaments, which is partially performance based. This reduced our gross loss to HK\$6.0 million in FY2021. Although our “LNG Esports” team achieved a higher overall ranking at the spring and summer splits in the League of Legends Pro League in FY2022 compared to FY2021, we recorded an increase in gross loss to HK\$33.4 million in FY2022 as a result of (i) the delay in recognition of revenue from e-sports tournaments pending confirmation by the event organiser; and (ii) the increase in our costs for recruitment of e-sports athletes.

BUSINESS

Please find below operational flow chart of our sports team and event management business:



Note: Our sports team and event management business comprises (a) e-sports club management business and (b) sports event management which are independent of each other.

BUSINESS

E-Sports Club Management

Leveraging on our extensive sports resources and managerial experience, we aspire to provide professional support and resources for the development of e-sports clubs as well as the e-sports industry in the PRC, and to create commercial opportunities for their sustainable development.

In 2019, we acquired an established e-sports club “Snake Esports” which is one of the e-sports clubs competing in the League of Legends Pro League, a professional e-sports competition event in the PRC for League of Legends game series, and re-branded it as “LNG Esports” with a fresh team logo to create synergy effects with our self-owned apparel and footwear brand “LNG” targeting at millennials. In September 2020, we established a new e-sports club “LNG.M TEAM” which competes in the Onmyoji Arena Pro League, a professional e-sports competition event in the PRC for the Onmyoji Arena game series.

We currently manage three e-sports clubs in the PRC that participates at professional e-sports tournaments. They are (a) “LNG Esports” which plays in the League of Legends Pro League, (b) “LNG.M TEAM” which plays in the Onmyoji Arena Pro League and (c) “LNG Academy” which plays in the League of Legends Development League. As at the Latest Practicable Date, there were six members in our “LNG Esports” club, six members in our “LNG.M TEAM” and eleven members in our “LNG Academy” club. Members of our e-sports clubs are experienced in e-sports and video-games and have an existing fan base from the e-sports tournaments. Our e-sports club competes at various regular matches, such as summer split and spring split, and playoffs organised under the relevant tournaments.

The number of our e-sports athletes participating at e-sports tournaments remained relatively stable during the Track Record Period save for a decrease in the number of participating members of “LNG Academy” in FY2022 as we focused on training our core team members during the relevant year. The table below sets forth the number of e-sport athletes who participated at the tournaments for the periods indicated:

	FY2020	FY2021	FY2022
“LNG Esports”	11	9	11
“LNG Academy”	24	24	15
“LNG.M TEAM”	5	7	7

The League of Legends Pro League is divided into two splits (i.e. spring and summer splits) for every year comprising over 240 matches for each split with 16 to 17 participating teams. Our “LNG Esports” participated in 32, 38 and 38 matches with 10, 19 and 22 wins in FY2020, FY2021 and FY2022 respectively.

The Onmyoji Arena Pro League is divided into three splits (i.e. spring, summer and autumn splits) for every year with 10 participating teams. Our “LNG.M TEAM” participated in 22, 32 and 33 matches with 22, 15 and 23 wins in FY2020, FY2021 and FY2022 respectively.

BUSINESS

The League of Legends Development League is divided into two splits (i.e. spring and summer splits) for every year with 24 to 26 participating teams. Our “LNG Academy” participated in 68, 89 and 79 matches with 49, 52 and 38 wins in FY2020, FY2021 and FY2022 respectively.

Our e-sports clubs generate revenue from (i) sharing of revenue from sponsorship fees and sales of live-broadcasting rights and/or live-viewing tickets of e-sports tournaments, which the organisers pay us based on factors such as our e-sports clubs’ the performance and ranking, (ii) sponsorship fees, and (iii) transfer fees paid by other clubs for recruiting e-sports athletes from our clubs. Our brand “LNG” also creates business synergy with our e-sports clubs, which are named after LNG, by launching e-sports-themed products series. Costs and expenses in relation to the management of e-sports club primarily includes (i) remuneration to e-sports athletes, and (ii) transfer fees payable to another e-sports club for recruiting athletes from them.

Our revenue mix from sports team management business remained relatively stable during the Track Record Period. The table below sets forth a breakdown of revenue by income source of our sports team management business during periods indicated:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
E-sports tournaments	9,891	80.2	25,365	76.4	20,366	63.6
Sponsorship fee income	1,321	10.7	3,777	11.4	11,658	36.4
Others (Note)	1,119	9.1	4,046	12.2	-	-
Total	12,331	100.0	33,188	100.0	32,024	100.0

Note: Others include fees for transfer or leasing of athletes.

In 2020, our “LNG.M TEAM” won the champion title in the autumn split of Onmyoji Arena Pro League by winning all 22 matches. In 2021, our “LNG Esports” achieved outstanding performance during the League of Legends Pro League, and was qualified for the League of Legends World Championship during the summer split for the first time and advanced to the group stage. Along with the upsurge of e-sports and the increasing popularity of our e-sports clubs, our apparel and footwear brand of “LNG” is expected to benefit from the branding effect and will gain recognitions from the younger generation.

BUSINESS

In recent years, the development of e-sports industry has been encouraged and supported by relevant governments in the PRC. For instance, in early 2021, the government of Suzhou City issued the Circular on the Implementing Opinions on Promoting the Healthy Development of the E-sports Industry in Suzhou City (關於促進蘇州市電競產業健康發展的實施意見的通知), which provides certain preferential policies and action plans to promote the orderly and healthy development of e-sports products, competition brands, e-sports teams, venue operation, live broadcast platforms, etc. According to the relevant laws and regulations in the PRC, we are not required to obtain special licenses or permits from governmental authorities prior to our commencement of operation of e-sport club. Nevertheless, we may be subject to certain restrictive policies during the operation of our e-sports club. For instance, organisers of e-sports tournaments may make rules to require that any e-sports player of e-sports clubs has to be over a certain age to be eligible for participating such tournaments.

In early 2022, the PRC government had issued a public consultation on the Regulations on the Protection of Minors Online (Draft for Solicitation of Comments)(《未成年人網絡保護條例(徵求意見稿)》) which aims to regulate and restricts the access to online video games by minors in the PRC. Given that (i) all of our e-sports athletes are adults who are not subject to the said regulation (if enacted in the current form), and (ii) our revenue from e-sports business are generated from our participation in e-sports tournaments, sponsorship and transfer of e-sports athletes, none of which is directly affected by the said regulation, we currently do not expect the recent regulatory changes in the gaming industry in the PRC to have any material adverse impact on the operation and financial performance of our e-sports business or “LNG” brand.

Arrangements with e-sports tournaments organisers

As a competing e-sports club of e-sports tournaments, we enter into agreement with the relevant tournaments organisers in relation to our participation and revenue-sharing arrangements. Summary of the key terms of these agreements typically includes, participation of e-sports clubs at the e-sports tournaments and related events, management of the e-sports club, calculation and sharing of revenue from the tournaments a portion of which is performance-based, payment terms, restrictions on the e-sports clubs on sponsorships, ownership and change of control, and termination.

Our agreements with e-sports tournament organisers are typically for a term of 5 years. Our agreement for League of Legends Pro League and League of Legends Development League is expected to expire in December 2025 and we are preparing to work with the organiser of Onmyoji Arena Pro League to renew our agreement for the upcoming season. Typically, the agreement with e-sports tournament organisers can be terminated by the non-defaulting party if there has been a breach of contract by the other party which cannot be remedied, or has not been remedied within a prescribed period. In addition, e-sports tournament organisers are entitled to terminate the agreement in any of the following events, including but not limited to, any breach of e-sports athletes service contract by e-sports club, any reputational damage to the organiser and the subject video game by any acts of the e-sports club and its members, and any transfer of the business of the e-sports clubs (unless previously approved by the organiser).

BUSINESS

During the Track Record Period, our e-sports clubs had not been withdrawn from the participation of their respective e-sports tournaments, including League of Legends Pro League, Onmyoji Arena Pro League and League of Legends Development League.

Incubation and management of e-sports athletes

We believe sustainable supply of talented e-sports athletes are essential to the success of e-sports club management. We incubate professional e-sports athletes to compete in e-sports tournaments, and to create and distribute high-quality e-sports-related content for live streaming and other online entertainment platforms and engage in other commercialisation activities.

Since our acquisition of “LNG Esports” (the then “Snake Esports”) in 2019, we have been gradually expanding our pool of e-sports talents and have recruited other promising candidates in emerging and popular video-games. We are committed to discovering new candidates to enlarge our talent pool and have a dedicated team that closely tracks all major entertainment platforms and professional e-sports tournaments to identify candidates with potential, with whom we seek to recruit. Moreover, we manage “LNG Academy”, an e-sports club competing at the League of Legends Development League, which focuses on the training of new players and promotion of sustainable development of the e-sports industry, with a view to nurture e-sports athletes and enable them to accumulate practical experiences in preparation for the League of Legends Pro League. We recruit professional e-sports coaches to provide regular trainings for all our e-sports athletes to strength their gaming techniques. With our efforts in nurturing talents, we maintain a pool of replacement e-sports athletes and do not rely on any particular e-sports athlete.

We enter into service agreements with our e-sports athletes based on the prescribed template approved by the e-sports tournaments organisers, material terms of which includes, length of service, remuneration and other benefits, performance-based bonus, obligations of the e-sports athletes and e-sports clubs, restrictions on press, social media and sponsorships, transfer of e-sports athletes, non-solicitation and anti-bribery covenants, and termination. During the Track Record Period, we did not experience any difficult in recruiting suitable e-sports talents, and did not have any material disputes with members of our e-sports clubs.

BUSINESS

Sports Event Management Business

We participate in the commercial operation and marketing activities of sports events in the PRC with a mission to promote sports culture and create value from sports activities. Leveraging on the reputation of our executive Director, chairman of our Board and chief executive officer, Mr. Li Ning, a former Olympic champion and a renowned sports icon, as well as our experience and extensive network in the sports industry and apparel and footwear industry, we work with reputable and influential sports events organisers, such as the CBA, and acquire the exclusive rights to market and operate their events. We connect sports and fashion brands with the events and provide them with tailored marketing opportunities and services, such as sponsorship and advertising. We generate revenue from the marketing service fees paid by the brands, which reflect the exposure and benefits they receive from the events. Costs in relation to this business primarily include (i) the fee for the exclusive marketing and commercial operation rights for the relevant sports event, (ii) the costs for carrying out the related marketing activities, and (iii) staff costs.

Arrangements with sports events organisers

Leveraging on the reputation and existing networks of our Group as well as our core management team in the sports industry, we acquire from sports events organisers the exclusive rights to market and operate their events. The work typically involves sourcing suitable sponsors for the sports events and managing the related commercial activities, such as advertisement, merchandise and sponsored products. Whilst we are required to pay to the sports event organisers a fee for such exclusive marketing and commercial operation rights, we are entitled to the marketing service income generated from the commercial activities.

We typically enter into agreements with sports event organisers in relation to each sports event. Major terms of these agreements generally include, coverage of the marketing and commercial operation rights in terms of geographical region, sponsored products as well as marketing channels and frequencies, fees for the exclusive marketing and commercial operation rights and payment terms, and details of the sports events, such as number of matches or events, date and schedule of the events and location.

The fee we pay for the exclusive rights to market and operate the commercial aspects of a sports event varies depending on the event and the marketing activities we propose. We negotiate the fee with the sports event organiser based on factors such as (i) the popularity and nature of the event, (ii) the scope of the rights we obtain, (iii) the estimated number and duration of the event, (iv) the expected viewers and participants of the event, and (v) the potential income and commercialisation opportunities from the event. The sports event organiser usually gives us an initial fee proposal. We then evaluate the profitability of the event by comparing the expected income and the production costs. The expected income comes from the sponsors who pay us for our marketing services. The production costs include the expenses we incur when providing these services, such as advertising, promotion, and event management. We aim for a minimum gross profit margin of 10%. If we think the event can meet this target, we will try to negotiate a lower fee with the sports event organiser. If the production costs are higher than the expected income, we do not participate in the event.

BUSINESS

Arrangements with sponsors

To create commercial value from sports events, we invite sports and fashion brands to sponsor the sports events and provide marketing services to them in return of a service fee. Leveraging on the popularity and brand premium of the sports events, sponsors can improve their brand recognition and promote their products at the sports events, and may receive revenue from developing and selling merchandise associated with the sports events.

We generally enter into a sponsorship agreement with each sponsor for every sports event. Under this agreement, we provide the following marketing services in exchange for a service fee: (i) we ensure that the athletes and other participants use only the sponsor’s sports apparel, footwear and accessories throughout the event, excluding those of their competitors, and (ii) we organise marketing activities to promote the event, featuring the sponsor’s logos and/or merchandise in the agreed format and frequencies.

Principal terms of the sponsorship agreements generally include, marketing service income and payment terms, requirements on the usage of the sponsored products, means and frequencies of the guaranteed publication of the sponsor’s logo on the marketing materials, and the list of the sponsors’ prohibited competitors.

We adopt a cost-plus approach in determining the marketing service fee we charge for our marketing services. The costs of our marketing services mainly comprise (i) the fee for the exclusive marketing and commercial operation rights for the relevant sports event, (ii) the costs for carrying out the related marketing activities, such as payment for stage setting, audio visual production, and renting advertising spaces, and (iii) staff costs. The specific features of each sports event and the marketing activities we propose determine the marketing service fee we charge. We negotiate this fee with the sponsors, taking into account factors such as: (i) the event’s popularity and nature, (ii) the number and duration of the event, (iii) the estimated viewers and participants of the event, (iv) the scope and coverage of the marketing activities, (v) the exposure of the brands, (vi) the impact on the sponsor’s sales and brand recognition, and (vii) the exclusivity of sponsorship. The average event profit margin of the two major sports events managed by us during the Track Record Period, being CBA Basketball League and 3+1 Basketball League, was 25.5% and 15.2% respectively. Variance in both the revenue and event profit margin recorded by us during the Track Record Period for providing marketing services at each sports event was primarily due to the difference in the popularity and scale of the sports events, and our service scope.

In selecting the sponsors, we generally consider, among other things, the brand positioning and reputation of the sponsor, the financial position of the sponsor, the quality of the sponsored products, the marketing service income, the targeted participants of the sports event.

BUSINESS

Landmark sports events of our sports event management business

During the Track Record Period, we partook in the CBA basketball league and 3+1 basketball league which collectively accounted for over 90% of our total revenue from sports event management business during the Track Record Period. Revenue generated from these two events was HK\$188.4 million, HK\$220.2 million and HK\$224.8 million for FY2020, FY2021 and FY2022 respectively. CBA basketball league is the highest-ranking professional basketball league in the PRC. 3+1 basketball league is a pop culture event for youngsters and campus basketball players hosting in business districts and university basketball courts in the PRC which combines “three-on-three” and “one-on-one” basketball league with hip-hop elements, such as rap, street dance, music and graffiti. Details of such events are as follows:

No.	Event	Relevant financial year during the Track Record Period	Identities of organiser	Identities of major sponsors	Average event profit margin during the Track Record Period <i>(Note)</i>	Services provided by our Group
1	Basketball league in the PRC	FY2020 to FY2022	Chinese Basketball Association	LN Group, Double Happiness	25.5%	Marketing and promotion of the event and sponsored brand, distribution of sponsored products, liaise with various stakeholders, including sponsors, sports clubs, athletes and media, monitor and attend to press release
2	3+1 Basketball League	FY2020 to FY2022	Our Group	LN Group	15.2%	Overall co-ordination of the event, including marketing and promotion, and execution of the event

Note: Event cost only includes those costs directly attributable to the event and does not include indirect and overhead costs.

To the best knowledge, information and belief of our Directors after making all reasonable enquiries, the organisers and sponsors of the above major sports events are Independent Third Parties except we were interested in 10.29% equity interests in Li Ning Co and 10% equity interests in Double Happiness as at the Latest Practicable Date.

OUR CUSTOMERS

Our customers are primarily (i) consumers and third-party retailers for our multi-brand apparel and footwear segment, (ii) local government, private enterprises and local residents for our sports destination development segment, (iii) sports events sponsors for our sports event management business, and (iv) e-sports tournament organisers for our e-sports team management business.

Top five customers of our Group

Our five largest customers accounted for 27.2%, 25.1% and 16.2% of our total revenue for FY2020, FY2021 and FY2022, respectively, and our single largest customer accounted for 24.6%, 21.4% and 6.9% of our total revenue for these respective periods. The percentage level of revenue attributable to our five largest customers and our single largest customer recorded a continuous decrease during the Track Record Period primarily due to our expansion and diversification of business through acquisitions and subsequent growth.

BUSINESS

The following table sets out the background information about our five largest customers for the periods indicated:

FY2020

Rank	Customer	Background and principal business activities of the customers	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing activities, sales of apparel	2017	201,180	24.6%	On or before the date specified in the agreement, bank transfer
2	Customer TS	A private company established on 4 January 2019 and based in Shanghai, the PRC with a registered capital of RMB530.0 million (of which RMB362.5 million had been paid up) and principally engages in the organisation of e-sports tournaments	E-sports live-broadcasting fees	2019	9,892	1.2%	30-60 days from invoice, bank transfer
3	Customer A (Note 2)	A private company incorporated in 1982 based in Thailand with its head office in Bangkok, Thailand and principally engages in sales of garments	Sales of apparel products	2011	5,792	0.7%	45 days from invoice, bank transfer
4	Customer SD (Note 3)	A state-owned enterprise established on 26 December 1995 and based in Shanghai, the PRC with a registered capital of RMB112.0 million (all of which had been paid up) and principally engages in sales of sports equipment	Provision of sports-related marketing services	2017	3,167	0.4%	On or before the date specified in the agreement, bank transfer
5	Customer TN (Note 2)	A private company based in Vietnam and principally engages in sales of garments	Sales of apparel products	2019	2,666	0.3%	Deposit and 10 days before shipment, bank transfer
Total					222,697	27.2%	

BUSINESS

FY2021

Rank	Customer	Background and principal business activities of the customers	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing services, sales of apparel and provision of footwear OEM services	2017	295,956	21.4%	On or before the date specified in the agreement, bank transfer
2	Customer TS	A private company established on 4 January 2019 and based in Shanghai, the PRC with a registered capital of RMB530.0 million (of which RMB362.5 million had been paid up) and principally engages in the organisation of e-sports tournaments	E-sports live-broadcasting fees	2019	23,597	1.7%	30-60 days from invoice, bank transfer
3	Customer A (Note 2)	A private company incorporated in 1982 based in Thailand with its head office in Bangkok, Thailand and principally engages in sales of garments	Sales of apparel products	2011	18,160	1.3%	45 days from invoice, bank transfer
4	Customer I (Note 2)	A private company incorporated on 7 October 2013 based in Jordan with a registered capital of 30,000 Jordanian Dinar (all of which had been paid up) and principally engages in sales of garments	Sales of apparel products	2015	7,064	0.5%	Deposit and 10 days before shipment, bank transfer
5	Customer SD (Note 3)	A state-owned enterprise established on 26 December 1995 and based in Shanghai the PRC with a registered capital of RMB112.0 million (all of which had been paid up) and principally engages in sales of sports equipment	Provision of sports-related marketing services	2017	3,405	0.2%	On or before the date specified in the agreement, bank transfer
Total					348,182	25.1%	

BUSINESS

FY2022

Rank	Customer	Background and principal business activities of the customers	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing services, sales of apparel and provision of footwear OEM services	2017	478,896	6.9%	On or before the date specified in the agreement, bank transfer
2	Clark Customer A (Notes 4 and 5)	A company listed on NASDAQ and principally engages in the provision of e-commerce services	Sales of footwear	2007	285,093	4.1%	60-90 days from invoice, bank transfer
3	Clark Customer M (Note 5)	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	2013	152,033	2.2%	45 days on receipt of goods and 60 days from invoice, bank transfer
4	Clark Customer D (Note 5)	A company listed on the New York Stock Exchange based in the US and principally engages in the sales of footwear	Sales of footwear	2015	136,782	2.0%	70 days from end of month, bank transfer
5	Clark Customer JC (Note 5)	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	2013	66,208	1.0%	30 days from invoice, bank transfer
Total					1,119,012	16.2%	

Notes:

- As at the Latest Practicable Date, Li Ning Co was held as to 10.29% by our Group, 0.15% by Mr. Li Ning (being our Director and Controlling Shareholder) under his personal capacity, and 0.04% by Mr. Li Qilin (being our Director) under his personal capacity. LN Group is also our supplier during the Track Record Period.
- These are customers of Bossini and our Group completed the acquisition of Bossini in July 2020.
- As at the Latest Practicable Date, Customer SD was held as to 10% by our Group.
- Clark Customer A includes two subsidiaries (based in the US and the Europe respectively) and is a company listed on NASDAQ which is principally engaged in the provision of e-commerce services.
- These are customers of the Clark Group and our Group completed the First Clark Acquisition in July 2022.
- Information regarding the background and principal business activities of our customers is prepared based on publicly available information.

BUSINESS

Top five customers of our multi-brand apparel and footwear business

Our five largest customers from our multi-brand apparel and footwear business accounted for 2.0%, 7.1% and 12.8% of our total revenue for FY2020, FY2021 and FY2022 respectively, and our single largest customer from this business accounted for 0.7%, 4.9% and 4.1% of our total revenue for these respective periods.

The following table sets out the background information about our five largest customers from our multi-brand apparel and footwear business for the periods indicated:

FY2020

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Brands and major distribution channels	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	Customer A (Note 2)	A private company incorporated in 1982 based in Thailand with its head office in Bangkok, Thailand and principally engages in sales of garments	Sales of apparel products	Bossini, retail stores in Thailand	2011	5,792	0.7%	45 days from invoice, bank transfer
2	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Sales of apparel	LNG, retail stores in the PRC	2020	3,975	0.5%	Monthly settlement, bank transfer
3	Customer TN (Note 2)	A private company based in Vietnam and principally engages in sales of garments	Sales of apparel products	Bossini, retail stores in Vietnam	2019	2,666	0.3%	Deposit and 10 days before shipment, bank transfer
4	Customer I (Note 2)	A private company incorporated on 7 October 2013 based in Jordan with a registered capital of 30,000 Jordanian Dinar (all of which had been paid up) and principally engages in sales of garments	Sales of apparel products	Bossini, retail stores in Jordan	2015	2,096	0.3%	Deposit and 10 days before shipment, bank transfer
5	Customer M (Note 2)	A private company founded in 1996 and based in Yangon, Myanmar with more than 600 employees and principally engages in the distribution of fast-moving consumable goods and fashion apparel	Sales of apparel products	Bossini, retail stores in Myanmar	2007	1,602	0.2%	Deposit and 14 days before proforma invoice, bank transfer
Total						16,131	2.0%	

BUSINESS

FY2021

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Brands and major distribution channels	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Sales of apparel and provision of footwear OEM services	LNG, retail stores in the PRC	2020	67,771	4.9%	Monthly settlement, bank transfer
2	Customer A (Note 2)	A private company incorporated in 1982 based in Thailand with its head office in Bangkok, Thailand and principally engages in sales of garments	Sales of apparel products	Bossini, retail stores in Thailand	2011	18,160	1.3%	45 days from invoice, bank transfer
3	Customer I (Note 2)	A private company incorporated on 7 October 2013 based in Jordan with a registered capital of 30,000 Jordanian Dinar (all of which had been paid up) and principally engages in sales of garments	Sales of apparel products	Bossini, retail stores in Jordan	2015	7,064	0.5%	Deposit and 10 days before shipment, bank transfer
4	Customer SA (Note 2)	A private company incorporated on 7 March 2017 under the law of France with registered capital of EUR8,000 and its registered office at Reunion Island and principally engaged in the sales of garments	Sales of apparel products	Bossini, retail stores in Reunion Island	2019	3,135	0.2%	Deposit and 30 days before shipment, bank transfer
5	Customer NB	A private company established on 25 April 2012 and based in Ningbo, the PRC with a registered capital of RMB60.0 million (of which RMB2.5 million had been paid up) and principally engages in sales of garments, footwear and other consumables	Sales of apparel products	LNG, retail stores in the PRC focusing on Ningbo, Shanghai, Nanjing and Hangzhou	2020	2,671	0.2%	Prepayment, bank transfer
Total						98,801	7.1%	

BUSINESS

FY2022

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Brands and major distribution channels	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	Clark Customer A (Notes 3 and 4)	A company listed on NASDAQ and principally engages in the provision of e-commerce services	Sales of footwear	Clarks, online sales	2007	285,093	4.1%	60-90 days from invoice, bank transfer
2	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Sales of apparel and provision of footwear OEM services	LNG, retail stores in the PRC	2020	242,270	3.5%	Monthly settlement, bank transfer
3	Clark Customer M (Note 4)	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Clarks, retail stores in the US and online sales	2013	152,033	2.2%	45 days on receipt of goods and 60 days from invoice, bank transfer
4	Clark Customer D (Note 4)	A company listed on the New York Stock Exchange based in the US and principally engages in the sales of footwear	Sales of footwear	Clarks, retail stores in the US and online sales	2015	136,782	2.0%	70 days from end of month, bank transfer
5	Clark Customer JC (Note 4)	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Clarks, retail stores in the US and online sales	2013	66,208	1.0%	30 days from invoice, bank transfer
Total						882,386	12.8%	

Notes:

- As at the Latest Practicable Date, Li Ning Co was held as to 10.29% by our Group, 0.15% by Mr. Li Ning (being our Director and Controlling Shareholder) under his personal capacity, and 0.04% by Mr. Li Qilin (being our Director) under his personal capacity. LN Group is also our supplier during the Track Record Period.
- These are customers of Bossini and our Group completed the acquisition of Bossini in July 2020.
- Clark Customer A includes two subsidiaries (based in the US and the Europe respectively) and is a company listed on NASDAQ which is principally engaged in the provision of e-commerce services.
- These are customers of the Clark Group and our Group completed the First Clark Acquisition in July 2022.
- Information regarding the background and principal business activities of our customers is prepared based on publicly available information.

BUSINESS

Top five customers of the Clark Group before completion of the First Clark Acquisition

For FY2020 and FY2021, most of our Group’s top five customers from the multi-brand apparel and footwear business are customers of the Bossini Group by reason of our acquisition of Bossini in July 2020. Following completion of the First Clark Acquisition in July 2022, most of our Group’s top five customers from this business segment for FY2022 are customers of the Clark Group.

Customers of the Clark Group are substantially individual shoppers and wholesale customers. Before completion of the First Clark Acquisition, the five largest customers of the Clark Group accounted for 14.9%, 14.0% and 15.9% of its total revenue for 52 weeks to 30 January 2021 and 29 January 2022 and the 22 weeks ended 2 July 2022, respectively, and its largest customer accounted for 7.5%, 6.2% and 6.1% of its total revenue for these respective periods. The following table sets out the background information about the five largest customers of the Clark Group for the periods indicated:

52 weeks to 30 January 2021

Rank	Customer	Background and principal business activities of the customers	Products sold/ services provided	Major distribution channels	Year of commencement of business relationship (£'m)	Revenue	Approximate % to total revenue	Credit period and payment term
1	Clark Customer A (Note)	A company listed on NASDAQ and principally engages in the provision of e-commerce services	Sales of footwear	Online sales	2007	58.5	7.5%	60-90 days from invoice, bank transfer
2	Clark Customer M	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	22.4	2.9%	45 days on receipt of goods and 60 days from invoice, bank transfer
3	Clark Customer D	A company listed on the New York Stock Exchange based in the US and principally engages in the sales of footwear	Sales of footwear	Retail stores in the US and online sales	2015	15.0	1.9%	70 days end of month, bank transfer
4	Clark Customer Q	A company listed on the New York Stock Exchange based in the US and principally engages in the operation of online and television shopping network	Sales of footwear	T-commerce and e-commerce platform	2013	12.6	1.6%	45 days from invoice, bank transfer
5	Clark Customer Z	A private company based in the US and principally engages in the retail sales of apparel and footwear	Sales of footwear	E-commerce platform	2013	7.6	1.0%	90 days from invoice, bank transfer
Total						116.1	14.9%	

BUSINESS

52 weeks to 29 January 2022

Rank	Customer	Background and principal business activities of the customers	Products sold/ services provided	Major distribution channels	Year of commencement of business relationship (£'m)	Revenue	Approximate % to total revenue	Credit period and payment term
1	Clark Customer A (Note)	A company listed on NASDAQ and principally engages in the provision of e-commerce services	Sales of footwear	Online sales	2007	57.1	6.2%	60-90 days from invoice, bank transfer
2	Clark Customer M	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	29.2	3.1%	45 days on receipt of goods and 60 days from invoice, bank transfer
3	Clark Customer D	A company listed on the New York Stock Exchange based in the US and principally engages in the sales of footwear	Sales of footwear	Retail stores in the US and online sales	2015	19.1	2.1%	70 days end of month, bank transfer
4	Clark Customer Q	A company listed on the New York Stock Exchange based in the US and principally engages in the operation of online and television shopping network	Sales of footwear	T-commerce platform and online sales	2013	13.5	1.4%	45 days from invoice, bank transfer
5	Clark Customer JC	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	11.0	1.2%	30 days from invoice, bank transfer
Total						129.9	14.0%	

22 weeks to 2 July 2022

Rank	Customer	Background and principal business activities of the customers	Products sold/services provided	Major distribution channels	Year of commencement of business relationship (£'m)	Revenue	Approximate % to total revenue	Credit period and payment term
1	Clark Customer A (Note)	A company listed on NASDAQ and principally engages in the provision of e-commerce services	Sales of footwear	Online sales	2007	24.4	6.1%	60-90 days from invoice, bank transfer
2	Clark Customer M	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	12.4	3.1%	45 days on receipt of goods and 60 days from invoice, bank transfer
3	Clark Customer D	A company listed on the New York Stock Exchange based in the US and principally engages in the sales of footwear	Sales of footwear	Retail stores in the US and online sales	2015	11.5	2.9%	70 days from end of month, bank transfer
4	Clark Customer JC	A private company based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	7.7	1.9%	30 days from invoice, bank transfer
5	Clark Customer K	A company listed on the New York Stock Exchange based in the US and principally engages in the operation of department stores	Sales of footwear	Retail stores in the US and online sales	2013	7.4	1.9%	45 days on receipt of goods
Total						63.4	15.9%	

Note: Clark Customer A includes two subsidiaries (based in the US and the Europe respectively) and is a company listed on NASDAQ which is principally engaged in the provision of e-commerce services.

BUSINESS

Top five customers of our sports experience business

Our five largest customers from our sports experience business accounted for 25.9%, 18.8% and 4.0% of our total revenue for FY2020, FY2021 and FY2022, respectively, and our single largest customer from this business accounted for 24.1%, 16.5% and 3.4% of our total revenue for these respective periods. The percentage level of revenue attributable to our five largest customers and our single largest customer from our sports experience business recorded a continuous decrease during the Track Record Period primarily due to our expansion of the multi-brand apparel and footwear business.

The following table sets out the background information about our five largest customers from our sports experience business for the periods indicated:

FY2020

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing services	2017	197,205	24.1%	On or before the date specified in the agreement, bank transfer
2	Customer TS	A private company established on 4 January 2019 and based in Shanghai, the PRC with a registered capital of RMB530.0 million (of which RMB362.5 million had been paid up) and principally engages in the organisation of e-sports tournaments	E-sports live-broadcasting fees	2019	9,892	1.2%	30-60 days from invoice, bank transfer
3	Customer SD (Note 2)	A state-owned enterprise established on 26 December 1995 and based in Shanghai, the PRC with a registered capital of RMB112.0 million (all of which had been paid up) and principally engages in sales of sports equipment	Provision of sports-related marketing services	2017	3,167	0.4%	On or before the date specified in the agreement, bank transfer
4	Customer XA	A private company established on 23 March 2018 based in Xi'an, the PRC with a registered capital of RMB57.5 million (of which RMB7.5 million had been paid up) and principally engages in the management of e-sports team	Transfer of e-sports athlete	2019	1,119	0.1%	On or before the date specified in the agreement, bank transfer
5	Customer O	PRC national sports team	Rehabilitation services	2020	1,057	0.1%	On or before the date specified in the agreement, bank transfer
Total					212,440	25.9%	

BUSINESS

FY2021

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing services	2017	228,185	16.5%	On or before the date specified in the agreement, bank transfer
2	Customer TS	A private company established on 4 January 2019 and based in Shanghai, the PRC with a registered capital of RMB530.0 million (of which RMB362.5 million had been paid up) and principally engages in the organisation of e-sports tournaments	E-sports live-broadcasting fees	2019	23,597	1.7%	30-60 days from invoice, bank transfer
3	Customer SD (Note 2)	A state-owned enterprise established on 26 December 1995 and based in Shanghai, the PRC with a registered capital of RMB112.0 million (all of which had been paid up) and principally engages in sales of sports equipment	Provision of sports-related marketing services	2017	3,405	0.2%	On or before the date specified in the agreement, bank transfer
4	Customer NBA	A private company established on 24 January 2008 and based in Beijing, the PRC with a registered capital of USD5.0 million (all of which had been paid up) and principally engages in the organisation and promotion of sports activities	E-sports team sponsorship	2021	2,392	0.2%	On or before the date specified in the agreement, bank transfer
5	Customer LK	A private company established on 23 February 2017 based in Zhejiang Province, the PRC with a registered capital of RMB100.0 million (all of which had been paid up) and principally engages in the sales of automobiles	E-sports team sponsorship	2021	2,279	0.2%	On or before the date specified in the agreement, bank transfer
Total					259,858	18.8%	

BUSINESS

FY2022

Rank	Customer	Background and principal business activities of the customer	Products sold/ services provided	Year our customer started to do business with us	Revenue (HK\$'000)	Approximate % to our total revenue	Credit period and payment term
1	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Provision of sports-related marketing services	2017	236,626	3.4%	On or before the date specified in the agreement, bank transfer
2	Customer TS	A private company established on 4 January 2019 and based in Shanghai, the PRC with a registered capital of RMB530.0 million (of which RMB362.5 million had been paid up) and principally engages in the organisation of e-sports tournaments	E-sports live-broadcasting fees	2019	18,944	0.3%	30-60 days from invoice, bank transfer
3	Customer LK	A private company established on 23 February 2017 based in Zhejiang Province, the PRC with a registered capital of RMB100.0 million (all of which had been paid up) and principally engages in the sales of automobiles	E-sports team sponsorship	2021	3,925	0.1%	On or before the date specified in the agreement, bank transfer
4	Customer SD (Note 2)	A state-owned enterprise established on 26 December 1995 and based in Shanghai, the PRC with a registered capital of RMB112.0 million (all of which had been paid up) and principally engages in sales of sports equipment	Provision of sports-related marketing services	2017	3,419	0.1%	On or before the date specified in the agreement, bank transfer
5	Shanghai Yifeng Culture Media Co., Ltd. (上海峯楓文化傳媒有限公司)	A private company established on 29 August 2017 and based in Shanghai, the PRC with a registered capital of RMB1.2 million (all of which had been paid up) and principally engages in cultural exchange, public relations, marketing and live-broadcasting and performance	Live-broadcasting fees	2021	1,988	0.1%	3 days from invoice, bank transfer
Total					264,902	4.0%	

Notes:

- As at the Latest Practicable Date, Li Ning Co was held as to 10.29% by our Group, 0.15% by Mr. Li Ning (being our Director and Controlling Shareholder) under his personal capacity, and 0.04% by Mr. Li Qilin (being our Director) under his personal capacity. LN Group is also our supplier during the Track Record Period.
- As at the Latest Practicable Date, Customer SD was held as to 10% by our Group.
- Information regarding the background and principal business activities of our customers is prepared based on publicly available information.

BUSINESS

To the best knowledge of our Directors, save as disclosed above, (a) none of our Directors, their respective close associates or any Shareholder who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date had any interest in any of our five largest customers under each of our business segments during the Track Record Period; and (b) other than acting as customers of our Group, there is no other relationship or dealing (including family, business, employment, trust, fund flow, financing or otherwise) (whether past or present) between our Group and our five largest customers under each of our business segments, their respective shareholders, directors or senior management, or any of their respective associates.

OUR SUPPLIERS

Our suppliers primarily comprises (i) OEM suppliers for our multi-brand apparel and footwear segment, (ii) utilities suppliers and coaches for our sports destination development segment, (iii) sports events organisers for our sports event management business, and (iv) e-sports club operators and talent management company in relation to recruitment of e-sports athletes for our e-sports team management business.

Our five largest suppliers accounted for 32.2%, 29.2% and 17.5% of our total cost of sales for FY2020, FY2021 and FY2022, respectively, while our largest supplier accounted for 20.7%, 15.6% and 5.0% of our total cost of sales for these respective periods. The percentage level of purchase amount attributable to our five largest suppliers and our single largest supplier recorded a continuous decrease during the Track Record Period primarily due to our business expansion and diversification through acquisitions and subsequent growth.

BUSINESS

The following table sets out the background information about our five largest suppliers for the periods indicated:

FY2020

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total costs of sales	Credit period and payment term
1	Chinese Basketball League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing and commercial operation of basketball event in the PRC	2017	101,238	20.7%	On or before the date specified in the agreement, bank transfer
2	Supplier T (Note 1)	A private company incorporated on 15 January 2003 in Hong Kong and principally engages in the export and import of garments	Purchase of garments	2007	16,399	3.4%	60 days from invoice, bank transfer
3	Jiangsu High Power IMP & Export Company Limited (江蘇匯鴻國際集團盛世進出口有限公司) (Note 1)	A private company established on 16 November 1992 and based in Nanjing City, the PRC with a registered capital of RMB10.2 million (all of which had been paid up) whose largest shareholder is a company listed on the Shanghai Stock Exchange and principally engages in the manufacturing of garments and other products	Purchase of garments	2012	15,012	3.1%	60 days from invoice, bank transfer
4	Supplier SM (Note 1)	A private company incorporated in 2002 based in Dhaka, Bangladesh and principally engages in the manufacturing of garments	Purchase of garments	2018	12,405	2.5%	60 days from invoice, bank transfer
5	Supplier SJ	A private company established on 12 February 2018 and based in Shanghai, the PRC with a registered capital of RMB60.0 million (all of which had been paid up) and principally engages in e-sports team management and is indirectly and wholly-owned by a sportswear company listed on the Main Board of the Stock Exchange	Transfer fee of e-sports team member	2020	12,140	2.5%	On or before the date specified in the agreement, bank transfer
Total					157,194	32.2%	

BUSINESS

FY2021

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total costs of sales	Credit period and payment term
1	Chinese Basketball League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing and commercial operation of basketball event in the PRC	2017	126,542	15.6%	On or before the date specified in the agreement, bank transfer
2	Jiangsu High Power IMP & Export Company Limited (江蘇匯鴻國際集團盛進進出口有限公司) (Note 1)	A private company established on 16 November 1992 and based in Nanjing City, the PRC with a registered capital of RMB10.2 million (all of which had been paid up) whose largest shareholder is a company listed on the Shanghai Stock Exchange and principally engages in the manufacturing of garments and other products	Purchase of garments	2012	34,594	4.3%	60-90 days from invoice, bank transfer
3	Ningbo Bridge Power Import & Export Company Limited (寧波布利傑博厚進出口有限公司) (Note 1)	A private company established on 14 April 2006 and based in Ningbo, the PRC with a registered capital of RMB10.0 million (all of which had been paid up) and principally engages in the manufacturing of garments	Purchase of garments	2007	30,614	3.8%	60-90 days from invoice, bank transfer
4	Jiangsu Soho International Group Corporation (江蘇蘇豪國際集團股份有限公司) (Note 1)	A state-owned enterprise established on 5 September 1981 and based in Nanjing, the PRC with a registered capital of RMB983.8 million (of which RMB894.3 million had been paid up) and principally engages in the import and export of garments	Purchase of garments	2007	23,836	2.9%	60-90 days from invoice, bank transfer
5	Jiangsu Sainty Eagle Co., Ltd. (江蘇舜天力佳服飾有限公司) (Note 1)	A private company established on 1 February 2002 and based in Jiangsu Province, the PRC with a registered capital of RMB10.0 million (all of which had been paid up) and principally engages in the manufacturing of garments	Purchase of garments	2007	21,389	2.6%	60-90 days from invoice, bank transfer
Total					236,975	29.2%	

BUSINESS

FY2022

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total costs of sales	Credit period and payment term
1	Vietnam Shoe Majesty Co., Ltd (Note 2)	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	189,005	5.0%	90 days end of month, bank transfer
2	Chinese Basketball League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing and commercial operation of basketball event in the PRC	2017	133,994	3.6%	On or before the date specified in the agreement, bank transfer
3	Clark Supplier TI (Note 2)	A private company established in 2006 and based in Cambodia and principally engages in manufacturing of footwear	Footwear manufacturing services	2008	123,157	3.3%	3 months end of month, bank transfer
4	Clark Supplier T (Note 2)	A private company based in India and principally engages in manufacturing of footwear. This supplier is a member of a multi-national group established in November 1962 which principally engages in trading and distribution of various materials, including footwear, garments and finished leather and minerals.	Footwear manufacturing services	2018	108,736	2.9%	90 days end of month, bank transfer
5	Binh Tien Bien Hoa Company Limited (Note 2)	A private company established in 2016 and based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2020	99,781	2.7%	60 days end of month, bank transfer
Total					654,673	17.5%	

Notes:

- These are suppliers of Bossini and our Group completed the acquisition of Bossini in July 2020.
- These are suppliers of the Clark Group and our Group completed the First Clark Acquisition in July 2022.
- Information regarding the background and principal business activities of our suppliers is prepared based on publicly available information.

BUSINESS

Top five suppliers of our multi-brand apparel and footwear business

Our five largest suppliers from our multi-brand apparel and footwear business accounted for 13.0%, 15.7% and 16.4% of our total cost of sales for FY2020, FY2021 and FY2022, respectively, and our single largest suppliers from this business accounted for 3.4%, 4.3% and 5.0% of our total cost of sales for these respective periods.

The following table sets out the background information about our five largest suppliers from our multi-brand apparel and footwear business for the periods indicated:

FY2020

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Supplier T (Note 1)	A private company incorporated on 15 January 2003 in Hong Kong and principally engages in the export and import of garments	Purchase of garments	2007	16,399	3.4%	60 days from invoice, bank transfer
2	Jiangsu High Power IMP & Export Company Limited (江蘇匯鴻國際集團盛世進出口有限公司) (Note 1)	A private company established on 16 November 1992 and based in Nanjing City, the PRC with a registered capital of RMB10.2 million (all of which had been paid up) whose largest shareholder is a company listed on the Shanghai Stock Exchange and principally engages in the manufacturing of garments and other products	Purchase of garments	2012	15,012	3.1%	60 days from invoice, bank transfer
3	Supplier SM (Note 1)	A private company incorporated in 2002 based in Dhaka, Bangladesh and principally engages in the manufacturing of garments	Purchase of garments	2018	12,405	2.5%	60 days from invoice, bank transfer
4	Ningbo Bridge Power Import & Export Company Limited (寧波布利傑博厚進出口有限公司) (Note 1)	A private company established on 14 April 2006 and based in Ningbo, the PRC with a registered capital of RMB10.0 million (all of which had been paid up) and principally engages in the manufacturing of garments	Purchase of garments	2007	10,775	2.2%	60 days from invoice, bank transfer
5	Jiangsu Soho International Group Corporation (江蘇蘇豪國際集團股份有限公司) (Note 1)	A state-owned enterprise established on 5 September 1981 and based in Nanjing, the PRC with a registered capital of RMB983.8 million (of which RMB894.3 million had been paid up) and principally engages in the import and export of garments	Purchase of garments	2007	8,760	1.8%	60 days from invoice, bank transfer
Total					63,351	13.0%	

BUSINESS

FY2021

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Jiangsu High Power IMP & Export Company Limited (江蘇匯鴻國際集團盛世進出口有限公司) (Note 1)	A private company established on 16 November 1992 and based in Nanjing City, the PRC with a registered capital of RMB10.2 million (all of which had been paid up) whose largest shareholder is a company listed on the Shanghai Stock Exchange and principally engages in the manufacturing of garments and other products	Purchase of garments	2012	34,594	4.3%	60-90 days from invoice, bank transfer
2	Ningbo Bridge Power Import & Export Company Limited (寧波布利傑博厚進出口有限公司) (Note 1)	A private company established on 14 April 2006 and based in Ningbo, the PRC with a registered capital of RMB10.0 million (all of which had been paid up) and principally engages in the manufacturing of garments	Purchase of garments	2007	30,614	3.8%	60-90 days from invoice, bank transfer
3	Jiangsu Soho International Group Corporation (江蘇蘇豪國際集團股份有限公司) (Note 1)	A state-owned enterprise established on 5 September 1981 and based in Nanjing, the PRC with a registered capital of RMB983.8 million (of which RMB894.3 million had been paid up) and principally engages in the import and export of garments	Purchase of garments	2007	23,836	2.9%	60-90 days from invoice, bank transfer
4	Jiangsu Sainty Eagle Co., Ltd. (江蘇舜天力佳服飾有限公司) (Note 1)	A private company established on 1 February 2002 and based in Jiangsu Province, the PRC with a registered capital of RMB10.0 million (all of which had been paid up) and principally engages in the manufacturing of garments	Purchase of garments	2007	21,389	2.6%	60-90 days from invoice, bank transfer
5	Supplier JKK (Note 1)	A private company incorporated in 2001 based in Dhaka, Bangladesh and principally engages in the manufacturing of garments	Purchase of garments	2017	17,052	2.1%	60-90 days from invoice, bank transfer
Total					127,485	15.7%	

BUSINESS

FY2022

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Vietnam Shoe Majesty Co., Ltd (Note 2)	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	189,005	5.0%	90 days end of month, bank transfer
2	Clark Supplier TI (Note 2)	A private company established in 2006 and based in Cambodia and principally engages in manufacturing of footwear	Footwear manufacturing services	2008	123,157	3.3%	3 months end of month, bank transfer
3	Clark Supplier T (Note 2)	A private company based in India and principally engages in manufacturing of footwear. This supplier is a member of a multi-national group established in November 1962 which principally engages in trading and distribution of various materials, including footwear, garments and finished leather and minerals.	Footwear manufacturing services	2018	108,736	2.9%	90 days end of month, bank transfer
4	Bing Tien Bien Hoa Company Limited (Note 2)	A private company established in 2016 and based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2020	99,781	2.7%	60 days end of month, bank transfer
5	Clark Supplier BO (Note 2)	A private company based in Bangladesh and principally engages in manufacturing of footwear	Footwear manufacturing services	2019	93,373	2.5%	60 days end of month, bank transfer
Total					614,052	16.4%	

Notes:

1. These are suppliers of Bossini and our Group completed the acquisition of Bossini by our Group in July 2020.
2. These are suppliers of the Clark Group and our Group completed the First Clark Acquisition in July 2022.
3. Information regarding the background and principal business activities of our suppliers is prepared based on publicly available information.

BUSINESS

Top five suppliers of the Clark Group before completion of the First Clark Acquisition

For FY2020 and FY2021, all of our Group’s top five suppliers from the multi-brand apparel and footwear business are suppliers of the Bossini Group by reason of our acquisition of Bossini in July 2020. Following completion of the First Clark Acquisition in July 2022, all of our Group’s top five suppliers from this business segment for FY2022 are suppliers of the Clark Group.

Suppliers of the Clark Group primarily comprises OEM suppliers for its products. Before completion of the First Clark Acquisition, the five largest suppliers of the Clark Group accounted for 30.1%, 32.7% and 25.9% of its total cost of sales for 52 weeks to 30 January 2021 and 29 January 2022 and the 22 weeks ended 2 July 2022, respectively, and its largest supplier accounted for 8.7%, 10.3% and 6.0% of its total cost of sales for these respective periods. The following table sets out the background information about the five largest suppliers of the Clark Group for the periods indicated:

52 weeks to 30 January 2021

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year of commencement of business relationship	Purchase amount (£'m)	Approximate % to the total costs of sales	Credit period and payment term
1	Vietnam Shoe Majesty Co., Ltd	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	35.7	8.7%	90 days end of month, bank transfer
2	Clark Supplier VC	The Vietnam branch of a private company established in 1978 and principally engages in the manufacturing of footwear in the PRC and Vietnam	Footwear manufacturing services	2015	31.4	7.6%	90 days end of month, bank transfer
3	Clark Supplier G	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	21.2	5.2%	90 days end of month, bank transfer
4	Clark Supplier W	A private company based in Cambodia and principally engages in manufacturing of footwear	Footwear manufacturing services	2013	18.0	4.4%	45 days end of month, bank transfer
5	Clark Supplier SP	A private company principally engages in manufacturing of footwear with its manufacturing facilities based in the Cambodia and opened in 1998	Footwear manufacturing services	2011	17.5	4.2%	90 days end of month, bank transfer
Total					123.8	30.1%	

BUSINESS

52 weeks to 29 January 2022

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year of commencement of business relationship	Purchase amount (£'m)	Approximate % to the total costs of sales	Credit period and payment term
1	Vietnam Shoe Majesty Co., Ltd	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	47.8	10.3%	90 days end of month, bank transfer
2	Clark Supplier SP	A private company principally engages in manufacturing of footwear with its manufacturing facilities based in the Cambodia and opened in 1998	Footwear manufacturing services	2011	32.8	7.1%	90 days end of month, bank transfer
3	Clark Supplier B	A private company founded in 2001 and based in Bangladesh and principally engages in manufacturing of footwear	Footwear manufacturing services	2014	24.2	5.2%	90 days end of month, bank transfer
4	Clark Supplier SM	A private company based in the PRC and principally engages in manufacturing of footwear	Footwear manufacturing services	2011	23.9	5.2%	120 days end of month, bank transfer
5	Clark Supplier T	A private company based in India and principally engages in manufacturing of footwear. This supplier is a member of a multi-national group established in November 1962 which principally engages in trading and distribution of various materials, including footwear, garments and finished leather and minerals.	Footwear manufacturing services	2018	22.8	4.9%	90 days end of month, bank transfer
Total					151.5	32.7%	

BUSINESS

22 weeks to 2 July 2022

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year of commencement of business relationship	Purchase amount (£'m)	Approximate % to the total costs of sales	Credit period and payment term
1	Clark Supplier F	A private company based in Cambodia and principally engages in manufacturing of footwear	Footwear manufacturing services	2020	12.2	6.0%	120 days end of month, bank transfer
2	Bing Tien Bien Hoa Company Limited	A private company established in 2016 and based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2020	11.6	5.7%	60 days end of month, bank transfer
3	Vietnam Shoe Majesty Co., Ltd	A private company based in Vietnam and principally engages in manufacturing of footwear	Footwear manufacturing services	2005	11.6	5.7%	90 days end of month, bank transfer
4	Clark Supplier T	A private company based in India and principally engages in manufacturing of footwear. This supplier is a member of a multi-national group established in November 1962 which principally engages in trading and distribution of various materials, including footwear, garments and finished leather and minerals.	Footwear manufacturing services	2018	9.0	4.5%	90 days end of month, bank transfer
5	Clark Supplier TI	A private company established in 2006 and based in Cambodia and principally engages in manufacturing of footwear	Footwear manufacturing services	2008	8.1	4.0%	3 months end of month, bank transfer
Total					52.5	25.9%	

Top five suppliers of our sports experience business

Our five largest suppliers from our sports experience business accounted for 26.0%, 19.5% and 4.7% of our total cost of sales for FY2020, FY2021 and FY2022, respectively, and our single largest suppliers from this business accounted for 20.7%, 15.6% and 3.6% of our total cost of sales for these respective periods. The percentage level of cost of sales attributable to our five largest suppliers and our single largest customer from our sports experience business recorded a continuous decrease during the Track Record Period primarily due to our expansion of the multi-brand apparel and footwear business.

BUSINESS

The following table sets out the background information about our five largest suppliers from our sports experience business for the periods indicated:

FY2020

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Chinese Basketball League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing and commercial operation of basketball event in the PRC	2017	101,238	20.7%	On or before the date specified in the agreement, bank transfer
2	Supplier SJ	A private company established on 12 February 2018 and based in Shanghai, the PRC with a registered capital of RMB60.0 million (all of which had been paid up) and principally engages in e-sports team management and is indirectly and wholly-owned by a sportswear company listed on the Main Board of the Stock Exchange	Transfer fee of e-sports team member	2020	12,140	2.5%	On or before the date specified in the agreement, bank transfer
3	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Purchase of sports apparel	2015	6,732	1.4%	3 business days from invoice, bank transfer
4	Supplier SA	A PRC national organisation for shooting and archery and established on 7 November 1991 based in Beijing, the PRC with a registered capital of RMB1.2 million (all of which had been paid up)	Exclusive right to marketing and commercial operation of sports event in the PRC	2017	3,695	0.8%	On the date specified in the agreement, bank transfer
5	Xinshi Hanhai (Beijing) International Advertising Company Limited (新勢瀚海(北京)國際廣告有限公司)	A private company established on 6 January 2009 based in Beijing, the PRC with a registered capital of RMB8.2 million (of which RMB3.6 million had been paid up) and principally engages in multi-media communication and production	Marketing and promotion services	2018	2,850	0.6%	25 business days from invoice, bank transfer
Total					126,655	26.0%	

BUSINESS

FY2021

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Chinese Basketball League (Beijing) Sports Co., Ltd. 中籃聯(北京)體育有限公司	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing and commercial operation of basketball event in the PRC	2017	126,542	15.6%	On or before the date specified in the agreement, bank transfer
2	Supplier SY	A private company based in Korea and principally engages in talent management business	Transfer fee of e-sports team member	2021	11,729	1.4%	On the date specified in the agreement, bank transfer
3	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Purchase of sports apparel	2015	9,542	1.2%	3 business days from invoice, bank transfer
4	Xinshi Hanhai (Beijing) International Advertising Company Limited (新勢瀚海(北京)國際廣告有限公司)	A private company established on 6 January 2009 based in Beijing, the PRC with a registered capital of RMB8.2 million (of which RMB3.6 million had been paid up) and principally engages in multi-media communication and production	Marketing and promotion services	2018	5,950	0.7%	25 business days from invoice, bank transfer
5	Chinese Cycling Association (中國自行車運動協會)	A PRC national organisation for cycling and established on 19 August 1991 based in Beijing, the PRC with a registered capital of RMB0.1 million	Exclusive right to marketing and commercial operation of sports event in the PRC	2021	5,135	0.6%	On the date specified in the agreement, bank transfer
Total					158,898	19.5%	

BUSINESS

FY2022

Rank	Supplier	Background and principal business activities of the suppliers	Products/services procured	Year our supplier started to do business with us	Purchase amount (HK\$'000)	Approximate % to our total cost of sales	Credit period and payment term
1	Chinese Basketball League (Beijing) Sports Co., Ltd. (中籃聯(北京)體育有限公司)	A private company established on 21 October 2016 and based in Beijing, the PRC with a registered capital of RMB60.0 million (of which RMB20.0 million had been paid up) and principally engages in organisation of basketball event	Exclusive right to marketing commercial operation of basketball event in the PRC	2017	133,994	3.6%	On or before the date specified in the agreement, bank transfer
2	Supplier SHH	A private company established on 2 July 2014 and based in Shanghai, the PRC with a registered capital of RMB100.0 million (of which RMB61.1 million had been paid up) and principally engages in e-sports talent management and social platform business	Transfer fee of e-sports team member	2022	11,300	0.3%	On the date specified in the agreement, bank transfer
3	Supplier SY	A private company based in Korea and principally engages in talent management business	Transfer fee of e-sports team member	2021	10,618	0.3%	On the date specified in the agreement, bank transfer
4	LN Group (Note 1)	A Hong Kong listed company based in the PRC and principally engages in sales of sportswear and equipment	Purchase of sports apparel	2015	9,390	0.3%	3 business days from invoice, bank transfer
5	Shanghai Renyou Advertising Communication Company Limited (上海仁有廣告傳播有限公司)	A private company established on 10 July 2018 based in Shanghai, the PRC with a registered capital of RMB2.0 million and principally engages in stage setting and management, lighting and decoration	Stage-setting services	2020	7,721	0.2%	On the date specified in the agreement, bank transfer
Total					173,023	4.7%	

Notes:

- As at the Latest Practicable Date, Li Ning Co was held as to 10.29% by our Group, 0.15% by Mr. Li Ning (being our Director and Controlling Shareholder) under his personal capacity, and 0.04% by Mr. Li Qilin (being our Director) under his personal capacity. LN Group is also one of our top five customers during the Track Record Period.
- Information regarding the background and principal business activities of our suppliers is prepared based on publicly available information.

BUSINESS

To the best knowledge of our Directors, save as disclosed above, (a) none of our Directors, their respective close associates or any Shareholder who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date had any interest in any of our five largest suppliers under each of our business segments during the Track Record Period; and (b) other than acting as suppliers of our Group, there is no other relationship or dealing (including family, business, employment, trust, fund flow, financing or otherwise) (whether past or present) between our Group and our five largest suppliers under each of our business segments, their respective shareholders, directors or senior management, or any of their respective associates.

Overlapping of customer and supplier

LN Group

LN Group was the largest customer of our Group for FY2020, FY2021 and FY2022, and one of our five largest suppliers of our sports experience business for FY2020, FY2021 and FY2022. Li Ning Co was a Hong Kong listed company based in the PRC and principally engages in brand marketing, research and development, design, manufacturing, distribution and retail of professional and leisure footwear, sport apparel, equipment and accessories.

During the Track Record Period, revenue received by us from LN Group mainly includes marketing service income for our sports-related marketing services provided under our sports event management business and purchase price for our sales of apparel and footwear (including footwear manufactured by us for LN Group during the provision of footwear OEM services) under our multi-brand apparel and footwear business. The revenue derived from our products sold and services provided to LN Group amounted to HK\$201.2 million, HK\$296.0 million and HK\$478.9 million, representing 24.6%, 21.4% and 6.9% of our total revenue for FY2020, FY2021 and FY2022 respectively.

During the Track Record Period, we procured sports apparel from LN Group for onward sales at shops located at our sports destinations under our sports experience business. Our cost of sales from LN Group amounted to HK\$7.5 million, HK\$9.5 million and HK\$14.8 million, representing 1.5%, 1.2% and 0.4% of our total cost of sales for FY2020, FY2021 and FY2022 respectively.

LN Group is a leading sports apparel, footwear and equipment retailer in the PRC. Given that our Group carries on multiple businesses, including multi-brand apparel and footwear as well as sports experience, it is natural that we have business transactions with LN Group acting as our customer or supplier from time to time. Our Directors confirm that our transactions with LN Group during the Track Record Period were on normal commercial terms, which were negotiated and considered each time based on the relevant specifications and requirements for such transaction. According to Frost & Sullivan, given the diversified business scope of our Group, it is not uncommon in the industry for an entity to be a supplier and a customer of our Group at the same time.

BUSINESS

Hubei Fleet

Hubei Fleet is a raw material supplier and a customer of our footwear OEM business. It is also our business partner in the investment and operation of our shoe factory holding 30% equity interest thereof. Hubei Fleet is a private limited company established in the PRC in 2008 and was principally engaged in the research and development, manufacturing and sales of footwear and related raw materials. To the best knowledge, information and belief of our Directors after making all reasonable enquiries, Hubei Fleet and its ultimate beneficial owners are Independent Third Parties (other than their investment in the shoe factory). During the Track Record Period and up to the Latest Practicable Date, save as disclosed above, (a) there was no other relationship or dealing (including family, business, employment, trust, financing or otherwise) (whether past or present) between our Group and Hubei Fleet, their respective shareholders, directors or senior management, or any of their respective associates, save for being our Group’s joint venture partner, customer and raw material supplier; and (b) there is no other side agreement, arrangement, understanding or fund flow between the Group and Hubei Fleet. For further details of Hubei Fleet, please see “Business – Provision of Footwear OEM Services” in this document.

In FY2021 and FY2022, we procured raw materials from Hubei Fleet for providing footwear OEM services to LN Group which amounted to HK\$0.3 million and HK\$42.4 million, representing 0.04% and 1.1% of our total cost of sales during the respective periods. As Hubei Fleet is one of the raw material suppliers designated by LN Group, we are required by LN Group to procure raw materials from Hubei Fleet at a specific price stated in the purchase order when providing footwear OEM services to LN Group. On that basis, we believe the principal terms of the transactions between our Group and Hubei Fleet (as our raw material supplier) are similar with those between other LN Group’s footwear OEM suppliers and Hubei Fleet for the purchase of similar raw materials.

Considering Hubei Fleet’s investment in our shoe factory and that they are familiar with the business operation and product quality of our shoe factory, Hubei Fleet outsourced part of their manufacturing process to us in FY2021 when they did not have sufficient production capacity. We therefore provided footwear OEM services to Hubei Fleet for producing certain footwear components of their semi-finished products and recorded revenue of HK\$2.2 million, representing 0.2% of our total revenue for in FY2021. Principal terms of the purchase orders between our Group and Hubei Fleet (as our footwear OEM services customer) in relation to the outsourced production process are similar with those between Hubei Fleet (as footwear OEM supplier) and the footwear brand. We did not procure any raw materials from Hubei Fleet for performing the footwear OEM orders from them.

BUSINESS

Based on the above, our Directors confirm that the transactions with Hubei Fleet were on normal commercial terms, which were negotiated and considered each time based on the relevant specifications and requirements for such transaction. According to Frost & Sullivan, as some of the footwear manufacturers engage in different stages of the industry value chain, it is not uncommon for an entity to be a supplier and a customer of our Group’s footwear OEM business at the same time.

MARKET COMPETITION

Our multi-brand apparel and footwear business

Mos of our Other Brands operate in the PRC apparel and footwear industry which is highly fragmented. According to Frost & Sullivan, our major competitors include both local and foreign fashion brands. Our “Clarks” footwear business also faces fierce competition in the global footwear market which is high competitive and fragmented. According to Frost & Sullivan, major competitors are other fashion and casual footwear brands based in the US, the UK and other parts of the Western Europe. We compete with our competitors mainly on product design, product price and sales network. The key barriers to entry in the apparel and footwear industry generally include, among others, brand recognition, product design and development capability, supply chain capability, sales and marketing network and data intelligence and consumer insight.

We believe that our diversified portfolio with multi-brand and multi-category strategies, coupled with our extensive sales network and brand recognition, provide us with competitive advantages which allow us to capture the business opportunities in the increasingly diversified apparel and footwear market. For further details, please refer to the section headed “Industry Overview” in this document.

Our sports experience business

We manage and operate a number of sports destinations and e-sports clubs, and provide marketing solutions in various sports events in the PRC. According to the Frost & Sullivan Report, the sport venues operation and management market in the PRC is dominated by the government authorities and other non-enterprise institutions, such as village committee and resident committee, and our major competitors are enterprises who operates the sports destinations mainly for commercial purpose. Both the e-sport club and e-sport influencer commercialisation industry and the sport marketing solution industry in the PRC are fragmented, and our major competitors include other e-sports clubs and other marketing solution providers.

BUSINESS

We believe that our (i) wide spectrum of professional and accessible sports venues and facilities for sports activities and training, (ii) well-established reputation in the sports industry, and (iii) business synergies between our multi-brand apparel and footwear business and sports experience business, provide us with competitive advantages in the PRC sports experience industry. For more information, please refer to the section headed “Industry Overview” in this document.

INSURANCE

We review our insurance policies from time to time for adequacy in the breadth of coverage. We believe our existing insurance coverage is in line with the common industry practice in the jurisdictions in which we operate and is adequate for our existing operations. In particular, we purchased public liability insurance for the sports destinations operated by us, health and safety insurance policies for our employees, and property all-risk insurance policies for our distribution centres, and marine cargo policy to cover our assets whilst in transit by third parties. During the Track Record Period, we did not have any material insurance claims in relation to our business. For risk factors relating to our insurance policies, please see “Risk Factors – Risks Relating to Our Business and Industry – Our insurance policies may be insufficient to cover potential losses arising as a result of business interruption, damage to our property or third-party liabilities”.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We acknowledge our responsibilities on environmental protection and social responsibilities and are aware of the climate-related issues that may have impact on our Group’s business operation. We are committed to comply with environmental, social and corporate governance (“ESG”) reporting requirements.

Corporate governance

Our Board understands that effective ESG governance plays a definite role in driving our Group’s pathway towards sustainable development. Hence, to ensure proper implementation of ESG governance, our Board has well-defined duties and responsibilities to oversee our execution of ESG-related matters. Our Board holds the overall accountability for our Group’s ESG strategies and performance. The main responsibilities of our Board’s executive committee include determining ESG materiality issues, developing and reviewing ESG strategies, reviewing the performance of environmental key performance indicators, assessing and determining the relevant ESG risks and materiality issues of our Group, and ensuring that appropriate and effective ESG risk management and internal control systems are in place at the Group level. While our Board provides oversight of our Group’s risk management system in ESG; daily management of our Group has been delegated to the management team. As such, we have set up a designated ESG management committee (the “**ESG Management Committee**”), which comprises of the chief executive officer, the chief financial officer, and the heads of the investor relations department, human resources and administration department and company secretary department of our Company. The ESG Management Committee is responsible for planning and coordinating the day-to-day execution of our Group’s ESG strategies, and reporting the progress of the associated targets and initiatives to our Board in writing on an annual basis. We also have an ESG execution team that is responsible for the implementation of ESG governance of our Group.

BUSINESS

In order to ensure the effective ESG governance of our newly acquired business, we established communication channels with the newly acquired business units and make sure regular communication could be made on ESG objectives, strategies, targets and review. We will comprehensively review the existing ESG management system and integrate the businesses acquired into our Company’s existing management system to strengthen our ESG performance and effective governance. We will also provide training to the ESG working groups of the newly acquired businesses and evaluate their qualification and performance.

Environmental protection and climate-related matters

Our Group’s operations are subject to certain environmental protection law and regulations. For details of the regulatory requirements, please refer to the section headed “Regulatory Overview – Other relevant laws and regulations in the PRC – Regulations on environmental protection” in this document.

In order to comply with the applicable environmental protection laws and regulations, as well as to strengthen the sustainable management of our environmental impacts, our Group has systematised its environmental policy to manage its environmental footprint. We focus on reducing emissions and improving energy efficiency, valuing the earth’s resources and building internal environmental awareness. We adopt corresponding policies, supplemented by relevant guidelines and principles, to fulfil our environmental responsibilities. Among which, the Clark Group has also established a restricted substances policy and a responsible sourcing policy (animal derived materials) to reduce its impact on the environment.

We recognise that climate change poses significant financial and non-financial risks to our business. To deal with the climate-related impact, we (i) have developed mitigation, adaptation and resilience strategies to address climate-related impacts; (ii) maintain ongoing communications with our stakeholders regarding climate-related impacts and work to support business partners to decarbonise; and (iii) set out clear work response policies and ensure constant internal communication to prepare for emergency situations.

Identification, management and assessment approaches

We also believe stakeholder engagement and support are crucial to our business success. As such, we regularly engage with our stakeholders to gain valuable feedback and address their concerns over our ESG performance and strategies. By engaging with an independent third party consultant, we conducted a comprehensive stakeholder engagement and materiality assessment to determine the most material ESG issues to our business operation. We adopted the following approaches to identify, assess and manage material ESG issues in our operation: (i) conducting stakeholders review to rank the importance of different ESG issues; (ii) analysing the result of peer benchmarking exercise and stakeholder to develop a prioritised list of material ESG issues; (iii) confirming the material key performance indicators (“**KPIs**”) with the help from independent consultant; and (iv) data collection and information disclosure of assessment results.

BUSINESS

Metrics, targets and mitigating measures in response to our ESG and climate-related risks

Our Group has taken into account the quantitative information that reflects our Group’s management on risks relating to gas emissions, resources usage, as well as the hazardous and non-hazardous waste. We completed the First Clark Acquisition in July 2022. Since the data system of the Clark Group is under adjustment, the KPIs of the Clark Group from the time after Clark joined our Group will be disclosed separately.

Viva Group

(1) Emissions

Our emissions are classified as scope 1 and scope 2 emissions. Scope 1 emissions include direct emissions from sources which are owned or controlled by our Group, including the consumption of natural gas and fuels for vehicles. Scope 2 emissions include indirect emissions from the consumption of purchased electricity and steam by our Group as a result of our usual operations. The sources of emissions are owned or controlled by other companies.

The following table sets forth the information of our emissions for our sports and apparel operations for the year indicated:

	FY2020	FY2021	FY2022
SPORTS OPERATIONS			
Carbon emission in total and intensity			
Scope 1 emission (<i>Tonnes</i>)	876.8	703.2	664.6
Scope 2 emission (<i>Tonnes</i>)	4,800.9	12,763.8	12,424.5
Total emissions (<i>Tonnes</i>)	5,677.7	13,467	13,089.1
Total emission intensity (<i>Tonnes/FTE</i>)	10.1	24.5	19.8
Other Emissions			
Wastewater generated (<i>Tonnes</i>)	161,159	157,025	154,634
NOx emissions (<i>Kg</i>)	25.6	16.2	167.1
SOx emissions (<i>Kg</i>)	0.2	0.2	20.7
PM emissions (<i>Kg</i>)	1.4	1.4	0.4
APPAREL AND FOOTWEAR OPERATIONS			
Carbon emission in total and intensity			
Scope 1 emission (<i>Tonnes</i>)	–	0	64.6
Scope 2 emission (<i>Tonnes</i>)	–	1,448.1	1,080.7
Total emissions (<i>Tonnes</i>)	–	1,448.1	1,145.2
Total emission intensity (<i>Tonnes/FTE</i>)	–	1.3	2.1
Other Emissions			
NOx emissions (<i>Kg</i>)	–	–	9.2
SOx emissions (<i>Kg</i>)	–	–	0.4
PM emissions (<i>Kg</i>)	–	–	0.2

BUSINESS

(2) Resource Usage

The following table sets forth the information of our resource usage for our sports and apparel operations for the year indicated:

	FY2020	FY2021	FY2022
SPORTS OPERATIONS			
Electricity consumption (MWh)	61,584.2	16,738.8	21,804.3
Renewable energy (MWh)	–	–	7.2
Natural gas consumption (MWh)	1,999.9	2,203.2	1,111.6
Gasoline consumption (MWh)	92.1	121.7	86.6
Electricity consumption intensity (MWh/FTE)	10.9	30.4	33.0
Natural gas consumption intensity (MWh/FTE)	3.6	4.0	1.7
Gasoline consumption intensity (MWh/FTE)	0.2	0.2	0.1
Water consumption (m ³)	208,094	279,123	223,659
Water consumption intensity (m ³ /FTE)	370	507	338
APPAREL AND FOOTWEAR OPERATIONS			
Electricity consumption (MWh)	–	2,781.8	2,656.0
Natural gas consumption (MWh)	–	–	437.9
Gasoline consumption (MWh)	–	–	176.4
Diesel consumption (MWh)	–	–	7.8
Electricity consumption intensity (MWh/FTE)	–	2.5	4.8
Natural gas consumption intensity (MWh/FTE)	–	–	0.8
Gasoline consumption intensity (MWh/FTE)	–	–	0.3
Diesel consumption intensity (MWh/FTE)	–	–	0.0
Water consumption (m ³)	–	4,874	2,157
Water consumption intensity (m ³ /FTE)	–	4.3	3.9

(3) Hazardous and Non-hazardous Waste

The following table sets forth the information of our hazardous and non-hazardous waste for our sports and apparel operations for the year indicated:

	FY2020	FY2021	FY2022
SPORTS OPERATIONS			
Hazardous waste (Usage)			
Waste carbon battery and alkaline battery (Kg)	–	–	17.5
Discarded lamp (Piece)	–	–	200
Discarded cartridge (Piece)	–	–	35
Discarded paints (Litre)	–	–	2
Hazardous waste intensity (Kg/FTE)	–	–	0.1
Hazardous waste (Recycled)			
Waste carbon battery and alkaline battery (Kg)	0	2.0	0.0
Hazardous waste recycled intensity (Kg/FTE)	–	–	0.0

BUSINESS

	FY2020	FY2021	FY2022
Non-hazardous waste (Usage)			
Paper (<i>Tonnes</i>)	2.1	0.8	1.1
Plastic (<i>Tonnes</i>)	0.08	0	0.3
General waste (<i>Tonnes</i>)	22.2	9.6	13.4
Metal (<i>Kg</i>)	24	0	0.1
Glass (<i>Kg</i>)	6.8	0	10
Non-hazardous waste intensity (<i>Tonnes/FTE</i>)	0.04	0.02	0.02
Non-hazardous waste (Recycled)			
Paper (<i>Tonnes</i>)	1.7	2	1.6
Plastic (<i>Tonnes</i>)	0.08	0	0.1
General waste (<i>Tonnes</i>)	0	0	0.3
Non-hazardous waste recycled intensity (<i>Tonnes/FTE</i>)	0.003	0.004	0.003
APPAREL AND FOOTWEAR OPERATIONS			
Hazardous waste (Usage)			
Waste carbon battery and alkaline battery (<i>Kg</i>)	–	–	0
Discarded lamp (<i>Piece</i>)	–	–	0
Discarded cartridge (<i>Piece</i>)	–	–	28
Discarded paints (<i>Litre</i>)	–	–	0
Hazardous waste intensity (<i>Kg/FTE</i>)	–	–	0.003
Hazardous waste (Recycled)			
Waste carbon battery and alkaline battery (<i>Kg</i>)	–	2.6	0
Hazardous waste recycled intensity (<i>Kg/FTE</i>)	–	–	0
Non-hazardous waste (Usage)			
Paper (<i>Tonne</i>)	–	5.1	12.1
Plastic (<i>Tonne</i>)	–	–	28.7
Metal (<i>Tonne</i>)	–	–	0.0
General waste (<i>Tonne</i>)	–	–	30.2
Shopping bag (<i>Tonne</i>)	–	13.6	14.9
Non-hazardous waste intensity (<i>Kg/FTE</i>)	–	16.7	34.3
Non-hazardous waste (Recycled)			
Paper (<i>Tonne</i>)	–	0.1	8.4
Plastic (<i>Tonne</i>)	–	–	17.5
Metal (<i>Tonne</i>)	–	–	7.9
General waste (<i>Tonne</i>)	–	–	16.2
Non-hazardous waste recycled intensity (<i>Kg/FTE</i>)	–	0.1	1.4

Note: Hazardous waste intensity is calculated based on discarded lamp as 250g/ piece, discarded cartridge as 54g/ piece and discarded paint as 1.3kg/litre.

BUSINESS

Clark Group

We completed the First Clark Acquisition on 2 July 2022. The following tables set forth the information of the Clark Group’s estimated carbon emissions and resource usage for the period between 2 July 2022 and 31 December 2022 with reference to the 2022 Sustainability Report issued by the Clark Group.

(1) Emission

	From 2 July 2022 to 31 December 2022
Carbon emission in total and intensity	
Scope 1 emission (<i>Tonnes</i>)	240.0
Scope 2 emission (<i>Tonnes</i>)	2,073.8
Scope 3 emissions (from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel) (<i>Tonnes</i>)	51.8
Total emissions	2,365.6
Emission intensity (<i>Tonnes/GBP1,000 net turnover</i>)	0.013
Emission intensity (<i>Tonnes/1,000 units sold, including all sales</i>)	0.363
Emission intensity (<i>Tonnes/1,000 units sold, direct sales only</i>)	0.400

(2) Resource Usage

Electricity consumption (<i>MWh</i>)	10,724.0
Natural gas consumption (<i>MWh</i>)	1,314.5
Gasoline consumption (<i>MWh</i>)	267.4

Note: The above estimated figures are calculated by dividing the relevant data in the Clark Group’s 2022 Sustainability Report for the period from February 2022 to December 2022 by eleven and multiplying by six.

BUSINESS

To ensure reduce emission, resource usage and hazardous and non-hazardous waste, we have adopted the following measures, including, during the Track Record Period:

- we have set long-term carbon reduction and energy targets applicable for our respective operations, such as, (i) introduced renewable energy and undergoing hardware upgrades across our operations; (ii) replaced obsolete electrical appliances with products which are more energy-efficient; (iii) made use of smart technology and data analysis to ensure constant adjustment of indoor air temperature to optimise energy performance and enhance energy saving; and (iv) replaced traditional incandescent bulbs with LED lights in all of our sports destinations and retail shops;
- we have adopted and plan to continue to adopt, as a short to medium term target, a multipronged approach to efficiently manage our water resources, such as, (i) introduced a circulation system to reduce the frequency of pool water replacement; (ii) installed a rainwater and wastewater recovery and recycling system for designated sports destinations to capture water around the complex; and (iii) conducted regular leakage tests on water pipes and installed water-saving devices to enhance water efficiency across our office premises;
- we have promoted and plan to continue to promote, as a short to medium term target, waste reduction and recycling, such as, (i) encouraged our employees to reuse office supplies and festive decorations; (ii) enhanced our recycling capacity to minimise the amount of landfilled waste generated from our operations; and (iii) digitalised our internal communications, circulating memorandums and reports.

We have launched the various programmes to ensure emissions reduction and responsible resource management in our subsidiaries operating around the world, including, amongst others:

- **for Bossini:** (i) all of our stores in Hong Kong and Macau participated in Earth Hour 2021 by switching off unnecessary lighting for an hour and pledging to greater energy efficiency throughout our operations; (ii) we offered innovative and eco-friendly reversible jackets and jeans using REPREVE, i.e. recycled fibres made from plastic bottles and other discarded materials., which emits fewer greenhouse gases and conserves more water and energy along the manufacturing process; and (iii) we implemented paperless stocktaking system which enables us to substantially reduce paper usage and waste, save energy and optimise the management process;

BUSINESS

- **for Clarks:** (i) to divert waste from landfill, over 80% of our store, office and warehouse waste in the UK was recycled, with the rest going to facilities which generate power and only a very small amount going to landfill, in 2018; (ii) to increase our use of renewable energy, 90% of our sites across UK and Europe moved onto Renewable Energy Guarantees of Origin (REGO) renewable electricity tariffs in 2020; (iii) to minimise greenhouse gas emission, we have replaced inefficient heating and cooling systems, insulated draughty buildings and replaced traditional lighting with more efficient LED lamps, as well as installed LEDs with motion sensors in our Global Headquarters in Somerset, as well as our UK warehouses over the past five years; (iv) to reduce waste generated in the manufacturing process, we have integrated recycled materials into our products and introduced new line of products using minimal glue; and (v) over 90% of our key raw material, i.e. leather, is sourced from tanneries with environmental management system in place and robust procedures covering restricted substances, energy consumption, water usage, air and noise emissions, waste management, effluent treatment and traceability.

In order to reduce obsolete inventory and returned products, we have carried out the following measures:

- To minimise our inventory risk, we conduct periodical review over our inventory levels for slow-moving inventory, obsolescence or decline in market value. All of our retail stores are equipped with a standard information management system (including POS terminals) and each of our products is coded under a barcode system for identification in our POS, which allow us to monitor our sales data and inventory levels on a real-time basis. We monitor our days of inventory regularly and carry out stock take at our stores annually. To promote the sales of slow-moving or out-of-season inventory, we typically conduct promotional sales of selected products at selected sales platforms, such as outlets and online sales platforms, at the end of each season;
- For FY2020, FY2021 and FY2022, insignificant amount of the returned apparel and footwear products in terms of quantity were defective. All defective products were returned to the respective OEM suppliers who were responsible for handling and disposing the defective products. We will continue ensuring our adherence to stringent quality control measures in order to minimise the number of defective products manufactured by our OEM suppliers, and to reduce product returns; and
- In respect of return of non-defective products, since such products are of merchantable quality and are fit for resale, these products would not be disposed nor destructed and thus there is no material impact on the environment. For return of non-defective products which were sold at e-commerce platforms, such products are required to be in good condition and in original packaging that are suitable for resale, which help ensure the products are intact and to reduce packaging wastes.

BUSINESS

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with the applicable PRC laws and regulations in relation to air and greenhouse gas emissions, discharges into water and land, and the generation of hazardous and non-hazardous wastes that resulted in prosecution, conviction or penalty being brought against us.

Our Group did not incur significant costs directly in relation to the compliance with applicable environmental requirements during the Track Record Period. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation.

Social matters

Our Group has set out different policies to address various social issues pertinent to us, including but not limited to, (i) adopting equal opportunity policy for fair recruitment and promotion process which are based on individual merits, experience and qualifications regardless of gender, race, age, religion, disability or family status; (ii) offering our employees competitive remuneration packages and fringe benefits; (iii) providing professional training to our employees, which covers (a) sports management, customer service, data analysis, financial risk regulations, tax management and workplace safety for our sports experience business, and (b) a variety of leadership and professional skills training, including classroom, digital and on-the-job trainings, to our office, warehouse and shop employees through “Bossini Academy” for our multi-brand apparel and footwear; (iv) adopting stringent controls in the recruitment process for screening out forced labour and child labour within our Group’s operations and along our supply chain; (v) adopting Supplier Code of Conduct to outline our approach to ethical behaviours, health and safety, labour rights and environmental practices; (vi) prioritising local suppliers and support green procurement; (vii) adopting zero-tolerance approach to corruption or malpractice of any form throughout our operations; and (viii) conducting regular audits and internal reviews to ensure full compliance with applicable laws and regulations, as well as imposing disciplinary action to any staff member who is in breach of our policies.

We also pride our success in promoting active and healthy lifestyles across the country to enhance citizens’ health and wellbeing. For more than a decade, we have been leveraging our sports resources and mobilising our human capital to organise a variety of sports-related activities and community programmes for the neighbourhoods we serve. We continue to offer complimentary access to our well-equipped sports parks and sports centres. During the Track Record Period, a number of interest classes, sports-themed carnivals and sports competitions suitable for citizens of different ages were successfully organised at our sports destinations.

We are also motivated to support diverse social segments to create a more connected and inclusive society. In addition to offering in-kind and financial donations to the socially disadvantaged, we encourage staff volunteering and outreach to different non-governmental organisations for community partnership. For instance, our staff in Bossini donated around 500 pieces of down jackets and vests that were in good condition as Christmas gifts to the elderly at Yan Chai Hospital in 2020.

BUSINESS

HEALTH AND OCCUPATIONAL SAFETY

Occupational health and safety is always our priority. To minimise work-related hazards across our operations, we have implemented different precautionary measures which go beyond regulatory compliance. For employees working under our sports-related operations, we offer them healthcare benefits such as free physical check-up services and complimentary access to sports facilities. In an effort to build an ergonomic workplace, we provided employees in our Hong Kong headquarters with office furniture such as ergonomic chairs and footrests.

To reinforce our safety-first culture, we continue to organise talks and workshops covering occupational health and safety topics including mental wellness, first aid, accident prevention and fire precaution. We also practised onsite housekeeping through regular inspections of firefighting supplies, work equipment and workplace hygiene to mitigate environmental-related hazards. For example, retail managers and shop supervisors will perform spot checks on their retail stores and storerooms to ensure full execution of our stringent safety requirements.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material accident in the course of our operation and none of our employees were involved in any major workplace accident in the course of their employment, and we were not subject to any disciplinary actions with respect to labour protection issues.

EMPLOYEES

Our Employees

As of 31 December 2022, we had 5,816 employees, comprising 2,507 employees for our “Clarks” footwear business and 3,309 employees for our other business. Most of our employees for “Clarks” are based in the UK and the US whereas employees for our other business are mostly located in the PRC and Hong Kong. The following table provides a breakdown of our total employees by function as of 31 December 2022:

Function	Number of employees
<i>Overall</i>	
Core management	82
Human resources	107
Accounting and finance	262
Information technology	166
Administration	85
Others	<u>26</u>
<i>Sub-total</i>	<u>728</u>

BUSINESS

Function	Number of employees
<i>Multi-brand apparel and footwear segment:</i>	
– Sales and marketing	2,688
– Supply chain management	210
– Product design, planning, research and development	213
– Quality control	211
– Staff from footwear manufacturing facilities and other ancillary functions	<u>1,184</u>
<i>Sub-total</i>	<u>4,506</u>
<i>Sports experience segment:</i>	
– Sports destination operation	365
– Coaching and training	187
– E-sports clubs and sports events management	<u>30</u>
<i>Sub-total</i>	<u>582</u>
Total	<u><u>5,816</u></u>

We emphasise the career development of our personnel and provide regular workshops and trainings to help them acquire practical and experience-based knowledge and skills. We recruit our employees primarily through recruitment agency, advertisements and internal referrals. In addition to salaries, we offer our employees additional benefits such as performance-based discretionary bonus, annual leave, insurance and retirement schemes.

We strive to continuously maintain amicable working relations with our employees. We believe that our management policies, working environment, development opportunities and employee benefits have contributed to establishing good employee relations and employee retention. During the Track Record Period, we did not have any strikes, protests or other material labour conflicts that may result in any material adverse effect over our business operations or results of operations of financial condition.

BUSINESS

INTELLECTUAL PROPERTY RIGHTS

We believe intellectual property rights, primarily consisting of trademarks, are key to the success and competitiveness of the businesses of our Group. For more details of the material intellectual property rights, please refer to the paragraph headed “Statutory and General Information – B. Further Information about our Business – 2. Material intellectual property rights” in Appendix V to this document.

Measures undertaken by us to prevent infringement of our own intellectual property rights includes, among other things, registration of trademarks in the relevant jurisdictions, and inclusion of clauses on intellectual property rights protection and confidentiality undertaking in the agreements with our OEM suppliers and retail partners. As of the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us.

LICENSES, APPROVALS AND PERMITS

As of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations. We renew all our material permits and licenses from time to time to comply with the relevant laws and regulations. Our PRC legal advisers have advised us that there is no material legal impediment to renewing such permits or licenses as they expire in future as long as we are in compliance with applicable laws, regulations and rules in the PRC.

LAND AND PROPERTIES

As at 31 December 2022, we had no single property with a carrying amount of 15% or more of our total assets, and, on this basis, we are not required under rule 5.01A of the Main Board Listing Rules to include in this document any valuation report.

Owned Property

As at 31 December 2022, we had eleven self-owned properties with an aggregate site area of approximately 114,275 square meters in the UK, the US and Hong Kong which are mainly used for our “Clarks” directly-operated stores and distribution centres.

BUSINESS

A summary of our self-owned properties as at 31 December 2022 is set out below:

No.	Location	Usage	Approximate site area (square meters)
The UK (Note 1)			
1.	Westway Distribution Centre, Westway, Street, Somerset, BA16 0LN, the UK	“Clarks” distribution centre	28,000
2.	Watercrock Business Distribution Centre, Natland Road, Kendal, LA9 7LR, the UK	Idle (Note 2)	20,446
3.	40 High Street, Street, Somerset BA16 0EQ, the UK	“Clarks” office and showroom	18,436
4.	12-14 Brigg Street, Norwich, NR2 1QN, the UK	“Clarks” directly-operated store	980
5.	1-3 Foregate Street, Chester, CH1 1HD, the UK	“Clarks” directly-operated store	850
6.	34 Week Street, Maidstone, ME14 1RP, the UK	“Clarks” directly-operated store	676
7.	16 Commercial Road, Bournemouth, BH2 5LP, the UK	“Clarks” directly-operated store	451
8.	114 High Street, Winchester, SO23 9AS, the UK	“Clarks” directly-operated store	392
The US			
9.	355 Kindig Lane, Hanover, PA 17331, the US	“Clarks” distribution centre	41,806
10.	30 Center Square, Hanover, PA 17331, the US	“Clarks” directly-operated store	338
Hong Kong			
11.	Unit 1 with Air Handling Plant Room on 9th Floor and Car Park No.L12 on 1st Floor, High Block of Cheung Fung Industrial Building, 23/39 Pak Tin Par Street, Tsuen Wan, New Territories, Hong Kong	Leased to an Independent Third Party	1,900

Notes:

1. These are freehold properties in the UK.
2. The premises was previously used as a “Clarks” distribution centre and was closed down in 2021 after the Clark Group relocated the distribution centre to other locations.

BUSINESS

Leased Properties

As at 31 December 2022, we leased approximately 880 properties in total. Our leased properties for our “Clarks” footwear business are mainly located in the UK and the US and the leased properties for our other business are mainly located in the PRC. The vast majority of our leased properties were used for operating our directly-operated stores under the multi-brand apparel and footwear business as well as ice-skating rinks under our sports destination development business, and the remainder were used for other ancillary support services, such as office, warehouse and staff dormitory.

As at 31 December 2022, the future minimum lease payments under our non-cancellable operating leases (classified under lease liabilities) are as follows:

	As at 31 December 2022 HK\$'000
Within 1 year	631,503
More than 1 year but less than 2 years	466,886
More than 2 years but less than 5 years	703,079
Over 5 years	<u>401,804</u>
Total	<u><u>2,203,272</u></u>

Some of our leased properties are subject to title defects as detailed below.

Absence of title documents or authorisations from lessors of leased properties

As at the Latest Practicable Date, the lessors for 59 of our leased properties in the PRC with a total gross floor area of 25,558.96 square meters had not provided valid authorisation documents evidencing their right to lease the properties, or had not provided valid title certificates or other ownership documents for the leased properties. We have been using these leased properties primarily as our directly-operated stores and warehouse for our multi-brand apparel and footwear business.

The absence of such certificates or documents may hamper our ability to determine whether the lessor has the legal right or authority to lease the property to us. If the lessor is not the legal owner, or is not properly authorised, the relevant lease agreement may be deemed invalid and, as a result, we may be challenged by the legal owner of the property and may be forced to vacate the relevant property, which could interrupt our business operations and cause us to incur relocation costs.

We consider that such defects in the titles of our leased properties are primarily attributable to reasons beyond our control because the lessors of these properties are responsible for procuring the necessary ownership certificates and authorisations. As advised by our PRC legal advisers, it is the lessors' responsibility to obtain the title certificates to enter into the leases, and, as a tenant, we will not be subject to any administrative punishment in this regard.

BUSINESS

As at the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the title of the abovementioned leased properties that might have a material adverse effect on our current occupation, nor have we been asked to vacate from any of the leased properties. No single property leased by us was material to our overall business operations, nor do we expect to incur significant time for identifying, or incur significant cost to relocate our operations to, comparable alternative properties in proximity.

Non-registration of leases

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the relevant land and real estate administration bureau. The registration of such leases will normally require the cooperation of our lessors. As at the Latest Practicable Date, we had not obtained lease registration for 165 of our leased properties with a total gross floor area of 84,242.4 square meters in the PRC, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. We have been using these leased properties primarily as our directly-operated stores for our multi-brand apparel and footwear business as well as our operation of ice-skating rinks. To minimise the potential negative impact of the non-registered leases on our operations, we will continue to communicate with such lessors to seek their cooperation to complete the registration process.

As advised by our PRC legal advisers, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease agreement. As of the Latest Practicable Date, we had not received any such request or been required to pay any such fine from the relevant PRC government authorities.

Lease of collectively-owned properties without prior approval from the local collective economic organisation

As at the Latest Practicable Date, one of our lease properties in the PRC which we use as a warehouse was situated on collectively-owned land which is currently prohibited from leasing to third party without the prior approval from the local collective economic organisation.

As advised by our PRC legal advisers, the lease agreement may be deemed to be invalid under PRC laws due to the violation of the PRC Land Administration Law, and we may be asked to vacate from the leased property if the validity of the lease agreement is being challenged. We have been using the leased property as warehouse for our multi-brand apparel and footwear business.

BUSINESS

As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the lease agreement, nor have we been asked to vacate from the leased property. Given the leased property is merely used as a warehouse, in the event we were asked to vacate from such leased property, we can outsource our warehouse functions to other third party service providers or other existing warehouse facilities to meet our business needs. Alternatively, we can identify and relocate our warehouse functions to comparable alternative properties in proximity without incurring significant time or costs.

After taking into consideration of the above, we believe that the title defects described above are not likely to have a material adverse impact on our overall business, results of operations and financial condition.

BUSINESS ACTIVITIES WITH COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

Certain countries or organisations, including the US, the European Union, the UK, the United Nation and Australia, maintain economic sanctions and trade restrictions targeting certain industries or sectors within the Countries subject to International Sanctions.

During the Track Record Period, we had sold non-US-origin apparel to our distributors in the Relevant Regions including one Comprehensively Sanctioned Country, namely, Iran. The revenue generated from such sales to the Relevant Regions (excluding Hong Kong) was HK\$2.6 million, HK\$4.1 million and HK\$1.9 million, representing 0.3%, 0.3% and less than 0.1% of our total revenue for FY2020, FY2021 and FY2022, respectively. For our activities with Iran, such sales to Iran involved only Euros payments. As advised by our International Sanctions Legal Advisers after performing the procedures they consider necessary, (i) our business dealings with our customer in Iran do not appear to be unlawful under the restrictive measures of International Sanctions; and (ii) we did not engage in Primary Sanctioned Activity or Secondary Sanctionable Activity during the Track Record Period, and thus we are not subject to in any material sanctions risks.

As advised by our International Sanctions Legal Advisers, (i) our customers in the Relevant Regions were not SDNs or Sanctioned Targets; (ii) our sales of non-US origin products to Iran did not involve any US nexus (including, specifically, that no payments were made in United States Dollars nor did it involve US persons) thus did not trigger applicable US sanctions; and (iii) the nature of our sales to the Relevant Regions should not trigger the United States secondary sanctions targeting certain industries or products since we had no activities targeted by extra-territorial provisions of sanctions law or regulation in the Relevant Jurisdictions.

Based on our current understanding and as advised by our International Sanctions Legal Advisers, (i) our business dealings in Iran do not appear to be unlawful under the restrictive measures of International Sanctions as our sales to Iran had no US nexus and thus were not restricted by primary US sanctions, and therefore a voluntary self-disclosure to OFAC is not necessary; and (ii) we did not engage in Primary Sanctioned Activity or Secondary Sanctionable Activity during the Track Record Period, thus would not be subject to material sanctions risks.

BUSINESS

Our Directors confirm that, as at the Latest Practicable Date, we had not been notified that any International Sanctions penalties would be imposed on us for our historic sales to the Relevant Regions during the Track Record Period. We have ceased to accept orders for sales to distributors in the Relevant Regions (excluding Hong Kong) and we do not intend to conduct any further business with our distributors in the Relevant Regions (excluding Hong Kong) that will cause us to violate the International Sanctions. We will not knowingly and intentionally conduct any future business or investment with persons, entities or organisations designated as Sanctioned Persons or any business in or involving any Comprehensively Sanctioned Countries that will cause us to violate the International Sanctions.

Given the scope of the [REDACTED] and, in particular, we are [REDACTED], our International Sanctions Legal Advisers are of the view that the involvement by parties in the [REDACTED] will not implicate any applicable International Sanctions on such parties, including our Company, the Sole Sponsor, our [REDACTED], Shareholders, the Stock Exchange and its [REDACTED] committee and group companies and accordingly, the sanctions risk exposure to our Company, [REDACTED] and Shareholders, and persons who might, directly or indirectly, be involved in permitting [REDACTED] of our Shares (including the Stock Exchange, its [REDACTED] committee and related group companies) is low.

We have undertaken to the Stock Exchange that we will not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and [REDACTED] to violate or become a target of International Sanctions laws by the US, the EU, the United Nations, the UK, the United Kingdom overseas territories or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports (i) details of any new activities in Countries subject to International Sanctions or with Sanctioned Persons; (ii) our efforts on monitoring our business exposure to sanctions risks; and (iii) the status of, and the anticipated plans for any new activities in Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible [REDACTED] of our Shares on the Stock Exchange.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Legal Proceedings

We may from time to time be subject to legal proceedings arising from the ordinary course of our business. As at the Latest Practicable Date, to the best of our knowledge, information and belief and having made due and careful enquiry, our Group was not subject to any material litigation or claim of material importance.

BUSINESS

Non-compliance

During the Track Record Period and up to the Latest Practicable Date, we did not have non-compliance incidents that our Directors believe would, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, save as set out below, we had complied with the relevant laws and regulations in all material respects in the PRC.

Non-compliance with social insurance and housing provident fund contributions

Background and reasons of non-compliance incidents

Pursuant to relevant PRC laws and regulations, employers are obligated to directly and duly make social insurances and housing provident fund contributions for their employees. During the Track Record Period, we failed to fully make social insurances and housing provident fund contributions for certain current and former employees with the relevant social insurance or housing provident fund authorities. We estimate that the shortfall of relevant contributions during the Track Record Period were immaterial. Our non-compliance was primarily related to the workers from our footwear manufacturing facilities for whom we did not make sufficient contribution mainly due to their high turnover rate. In addition, some of our employees prefer us not to contribute to the social insurance and housing provident funds due to the requirement that they need to co-contribute.

During the Track Record Period and up to the Latest Practicable Date, we engaged third party agents to pay social insurance and housing provident funds for a small number of our employees in order to enable them to enjoy the social insurance and housing provident funds at their habitual residence where we did not have any local subsidiaries and branches for completing the necessary registration or making the relevant contributions. Such arrangements are not in strict compliance with relevant PRC laws and regulations.

Potential legal consequences

As advised by our PRC legal advisers, if any of the relevant social insurance authorities is of the view that we failed to make full social insurance contributions for our employees in accordance with the relevant laws and regulations, it may order us to pay outstanding amounts within a prescribed time limit, and we may be subject to a late charge at the daily rate of 0.05% on the outstanding amounts from the date on which such amounts are payable. If such payment is not made within the prescribed period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. If any of the relevant social insurance authorities is of the view that we failed to complete the social insurance registration for our employees, they may request us to complete such registration within a prescribed period, and failing which, we may be subject to a fine from one to three times of the amount of social insurance contributions payable by us.

BUSINESS

As advised by our PRC legal advisers, if any of the relevant housing provident fund authorities is of the view that we failed to make full housing provident fund contributions for our employees in accordance with the relevant laws and regulations, it may order us to make outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to PRC courts for compulsory enforcement. If any of the relevant housing provident fund authorities is of the view that we failed to complete the housing provident fund registration for our employees, we may be subject to a fine between RMB10,000 and RMB50,000.

Rectification

During the Track Record Period and up to the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our contributions to social insurance and housing provident funds or payment of contribution through third party agents, nor had we received any order, employee complaints or been informed to settle the under-payments. We have obtained confirmations from, and/or consulted with, the relevant government authorities supervising our principal subsidiaries since May 2022, which confirmed that we had not been subject to any administrative action, fine or penalty imposed by the relevant regulatory authorities with respect to our contributions to social insurance and housing provident funds during the Track Record Period. Our PRC legal advisers have confirmed that these regulatory authorities are the competent authorities governing our contributions to social insurance and housing provident funds in the relevant cities.

We are committed to being fully compliant with applicable laws and regulations, and have begun to implement measures to rectify our non-compliance with social insurance and housing provident funds laws and regulations. We undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities. As at 31 December 2022, we have a provision of HK\$34.8 million to cover the shortfall of social insurance and housing provident fund contributions for the Track Record Period and preceding years.

We have enhanced our internal control measures, including enhancing policy on social insurance and housing provident fund contributions in compliance with relevant PRC laws and regulations. In addition, we have designated our accounting department and human resources department to review and record the reporting and contributions of social insurance and housing provident fund on a monthly basis. We will continue to communicate with the respective regulatory authorities and consult our corporate legal counsel on a regular basis to keep us abreast of relevant regulatory developments in the PRC.

BUSINESS

We expect to gradually rectify our social insurance and housing provident fund contributions of our employees in the period of three years starting from the second half of 2023 as the regulatory authorities in major cities only adjust the base of contributions in July every year. Our compliance with social insurance and housing provident fund contributions is in part subject to cooperation from our employees, who may not be receptive and may have a different attitude towards such contributions due to the requirement that they co-contribute. In this connection, we will communicate with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, and adjust the base of contribution starting with those business units with low staff turnover and where the majority of our employee is willing to pay such additional contributions. To avoid the need of engaging third party agents to pay social insurance and housing provident funds for employees from other regions or provinces, we have instructed our local subsidiaries in the PRC to hire only local employees going forward.

Taking into account of the above confirmation from, and consultation with, the competent regulatory authorities and considering that (i) we had not been subject to any material administrative action, fine or penalty imposed by the relevant regulatory authorities with respect to our contributions to social insurances and housing provident funds during the Track Record Period and up to the Latest Practicable Date; (ii) as at the Latest Practicable Date, we had not received any notifications from the relevant PRC authorities requiring us to pay the shortfalls or the penalties with respect to social insurance and/or housing provident funds, nor had we received any material complaints from our employees with respect to social insurance and housing provident fund contributions; (iii) we have made provisions for social insurance and housing provident fund contributions; (iv) we will comply with the requirements of the competent regulatory authorities to make supplemental contributions in the event we receive such requirements; and (v) according to the urgent notice on stabilizing collection of social insurances pursuant to the executive meeting of State Council (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) issued by General Office of Ministry of Human Resources and Social Security (人力資源社會保障部辦公廳) in September 2018, local governments are strictly prohibited from collecting historical outstanding social insurance contributions, our PRC legal advisers are of the view that the risk of us being subject to material administrative penalties due to failure to make full social insurance and housing provident fund contributions is relatively low.

In addition, our PRC legal advisers are of the view that our engagement of third party agents for payment of social insurance and housing provident funds contributions will not bring upon any material adverse impact over the [REDACTED] after considering (i) the confirmation from relevant third party agents that they have made sufficient social insurance and housing provident funds contributions for the relevant employees in a timely manner; and (ii) the confirmation from relevant employees consenting to the arrangement for payment of the social insurance and housing provident funds contributions through third party agents.

BUSINESS

Based on the above, our Directors are of the view that the above non-compliance will not have a material adverse effect on our overall operations and financial condition as a whole.

Some of our operation sites fail to complete fire safety related procedures

Background and reasons of non-compliance incidents

As at the Latest Practicable Date, among the sites we currently occupied for operation, (i) four of our sports parks or sports centres, which we operated under entrustment, did not obtain the fire safety inspection certificates (消防安全檢查合格證) or make the fire safety undertaking (消防安全告知承諾) for public gathering places, and (ii) three of our ice-skating rinks, which we operated under lease, did not complete the fire safety completion acceptance recordation (消防驗收備案). During the Track Record Period, revenue generated from the foregoing premises involving fire safety non-compliance amounted to HK\$55.7 million, HK\$117.8 million and HK\$99.1 million, representing 6.8%, 8.5% and 1.4% of our total revenues for FY2020, FY2021 and FY2022, respectively, and the revenue generated from each of the premises is as follows:

	FY2020 HK\$'000	FY2021 HK\$'000	FY2022 HK\$'000
Sports parks/sports centres			
Yangzhou Li Ning Sports Park 揚州李寧體育園	15,908	23,062	15,164
Hefei Nanyan Lake Li Ning Sports Park 合肥南艷湖李寧體育園	5,623	20,659	21,890
Nantong Li Ning Sports Centre 南通李寧運動中心	4,785	6,737	7,420
Tianjin Chilong Li Ning Cultural and Sports Centre 天津赤龍李寧 文體中心	126	2,028	731
Ice-skating rinks			
All-Star Beijing Solana Ice Rink* 全明星北京藍色港灣國際商區冰場	10,073	17,406	16,076
All-Star Shanghai Incity MEGA Ice Rink* 全明星上海印象城冰場	5,286	22,141	17,207
All-Star Shanghai Mercedes - Benz Arena Ice Rink* 全明星上海梅賽德斯-奔馳文化中心冰場	13,939	25,747	20,606
Total	55,740	117,780	99,094

Note: Performance of our sports destination development business improved in FY2021 as a result of the increased interest in winter sports due to Beijing Winter Olympics in 2022 and the economic recovery from COVID-19.

Our non-compliance was primarily due to failure of the entrusting parties or the landlords as applicable, which are state-owned enterprises or well-established property developers to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control.

BUSINESS

Potential legal consequences

As advised by our PRC legal advisers, we may be subject to the following fines and/or penalties in connection with the abovementioned non-compliances:

- for sites that were put into use without obtaining the fire safety inspection certificates or making the fire safety undertaking for public gathering places, we are subject to the risk of being prohibited from using these sites or closing of our business relevant to the affected sites and being fined between RMB30,000 and RMB300,000; and
- for sites that were put into use without completing the fire safety completion acceptance recordation, we are subject to the risk of being fined up to RMB5,000.

Furthermore, as the manager or user of the sites, we are generally responsible for fire safety management of such sites and shall perform relevant fire safety duties, such as establishing fire safety policies, setting up and conducting regular testing and maintenance of fire control facilities, organising fire prevention drills and adopting other necessary fire safety measures to eliminate potential fire risks. In addition, we shall normally take responsibility for and bear losses arising from fire accidents occurring at the sites, which are caused by our mismanagement.

Rectification

Despite of our failure to complete the necessary fire safety related procedures in a timely manner, which was primarily due to failure of the entrusting parties or the landlords (as applicable) to provide us with the necessary documents for the completion of relevant fire safety related procedures, we have been continuously communicating with the entrusting parties or the landlords and the relevant governmental authorities with a goal to rectify the fire safety related non-compliance. Nevertheless, there are various practical difficulties for us to rectify all of the fire safety related non-compliance, which include: (i) failure of the entrusting parties or the landlords to complete the required fire safety procedures, which shall have been completed by the entrusting parties or the landlords themselves, for the entire premises where our operation sites are located and thus such entrusting parties or landlords cannot provide us with the relevant documents, which caused delays in our application for completing the fire safety procedures; and (ii) the relevant local governmental authorities may not accept applications for completing the fire safety procedures that are submitted after the commencement of business operations at such sites. As a result, the expected time for completion of the fire safety procedures is subject to various factors that may be out of our control.

We are committed to completing the fire safety procedures as soon as practicable. We have been communicating with the relevant fire authorities in charge of the relevant sports parks and sports centres, with the coordination of the sports destinations owners who are mostly local governments or state-owned enterprises with an intention to guarantee our normal operation, on our proposed rectification measures for the non-compliance and have made our best efforts to fulfill the requirements required by the authorities.

BUSINESS

In addition to the above general rectification measures, please see below table for the current status of fire safety related non-compliance, reasons of non-compliance, and the specific rectification measures as well as expected timeline, for each of the relevant sports destinations:

Name	Status of fire safety related non-compliance	Reasons for Non-compliance	Rectification measures/expected timeline
Sports Parks/sports centres			
1 Yangzhou Li Ning Sports Park 揚州李寧體育園	Did not obtain the fire safety inspection certificates (消防安全檢查合格證) or make the fire safety undertaking (消防安全告知承諾) for public gathering places	Failure of the entrusting party, which is a state-owned enterprise, to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control	<ul style="list-style-type: none"> - In December 2021, an independent fire safety consultant performed a full assessment of the fire safety facilities of our sports centre in Yangzhou and issued an evaluation report, which suggests that there is no material defect in the fire safety facilities of such sports park. - We have consulted with the owner of our sports park in Yangzhou, confirming that relevant fire safety facilities have been put into use and there have been no major fire accidents at such sites.
2 Hefei Nanyan Lake Li Ning Sports Park 合肥南澗湖李寧體育園	- Did not obtain the fire safety inspection certificates (消防安全檢查合格證) or make the fire safety undertaking (消防安全告知承諾) for public gathering places	Failure of the entrusting party, which is a state-owned enterprise, to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control	<ul style="list-style-type: none"> - The sports park in Hefei was already opened in 2020, and passed fire control inspection (消防驗收) by the local fire authorities in late 2021, but no fire safety inspection certificate was granted due to the local policy that the fire control inspection certificate would normally not be granted after commencement of business operation. - We have been continuously communicating with the local fire authority and invite them to carry out on-site inspection regularly. - In order to further assess and mitigate the risks related to fire safety, we have engaged an independent fire safety consultant to perform an assessment on the fire safety facilities of the Hefei sports park, and the report issued by such consultant in December 2022 suggests that there is no material defect in the fire safety facilities of such sports park.
3 Nantong Li Ning Sports Centre 南通李寧運動中心	Did not obtain the fire safety inspection certificates (消防安全檢查合格證) or make the fire safety undertaking (消防安全告知承諾) for public gathering places	Failure of the entrusting party, which is a government body, to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control	<ul style="list-style-type: none"> - Although our sports centre in Nantong did not obtain fire safety inspection certificate (消防安全檢查合格證) before it was opened, the entire building, in which such sports centre is located, passed fire control inspection (消防驗收) by the local fire authorities in late 2018 as a whole. - Our sports centre in Nantong is currently designated by the local fire authorities as its swimming training base, which may serve as an indication that the local fire authorities have substantially acknowledged the status of the fire safety facilities in such sports centre.

BUSINESS

Name	Status of fire safety related non-compliance	Reasons for Non-compliance	Rectification measures/expected timeline
4 Tianjin Chilong Li Ning Cultural and Sports Centre 天津赤龍李寧文體中心	Did not obtain the fire safety inspection certificates (消防安全檢查合格證) or make the fire safety undertaking (消防安全告知承諾) for public gathering places	Failure of the entrusting party, which is a government body, to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control	<ul style="list-style-type: none"> - We have consulted with the entrusting party of our sports center in Nantong, confirming that relevant fire safety facilities have been put into use and there have been no major fire accidents at such sites. - We have been continuously communicating with the local fire authority and invite them to carry out on-site inspection regularly. - In order to further assess and mitigate the risks related to fire safety, we have engaged an independent fire safety consultant to perform an assessment on the fire safety facilities of Nantong sports centre, and the report issued by such consultant in December 2022 suggests that there is no material defect in the fire safety facilities of such sports centre. - On 27 June 2022, the sports centre was requested to suspend its business operations temporarily and a fine of RMB30,000 was imposed on us by the competent fire control authority for not obtaining the fire safety inspection certificate before commencing its business operations. The fine has been fully paid by us and the revenue generated from such sports centre was relatively low during the Track Record Period. - The competent fire control authority has issued a written certificate on 11 August 2022, confirming that we have been actively rectifying the non-compliance and there is no major potential fire hazard or serious violation of fire safety laws at the sports centre in Tianjin. - To rectify the non-compliance, we have been communicating with the local fire authority to arrange an inspection at our sports centre. As at the Latest Practicable Date, the local fire authority is still processing our application and has not completed such inspection. Although the sports centre remains suspended, our Directors believe that such suspension will not have any material adverse impact on the business operation or financial results of our Group given that such sports centre accounted for less than 1% of our total revenue for each of FY2020, FY2021 and FY2022.

BUSINESS

Name	Status of fire safety related non-compliance	Reasons for Non-compliance	Rectification measures/expected timeline
Ice-skating rinks			
1	All-Star Beijing Solana Ice Rink* 全明星北京藍色港灣國際商區冰場	Did not complete the fire safety completion acceptance recordation (消防驗收備案), but already obtained the fire safety inspection certificates (消防安全檢查合格證) for public gathering places	Failure of the relevant landlord, which is a large scale property developer, to provide the necessary documents for the completion of relevant fire safety related procedures which is out of our control
2	All-Star Shanghai Incity MEGA Ice Rink* 全明星上海印象城冰場		<ul style="list-style-type: none"> - Based on our consultation with the local fire authorities in charge of the ice-skating rinks, it is confirmed that as each of three ice-skating rinks has passed the fire safety inspection and obtained the fire safety inspection certificates (消防安全檢查合格證) for public gathering places before its opening, the risk is relatively low that we would be imposed administrative fines or penalty for not completing the fire safety completion acceptance recordation for our decoration of such ice-skating rinks provided that such decoration does not materially change the overall fire safety facilities of the shopping malls. During the Track Record and up to the Latest Practicable Date, we had not made any material change to the overall fire safety facilities of such shopping malls during our decorations of the leased premises.
3	All-Star Shanghai Mercedes – Benz Arena Ice Rink* 全明星上海梅賽德斯－奔馳文化中心冰場		<ul style="list-style-type: none"> - The relevant shopping malls where the three ice-skating rinks are located have passed the fire safety inspection as a whole before their opening, and are under regular inspection by the local fire authorities.

BUSINESS

Furthermore, we have enhanced our internal control measures and procedures with respect to fire safety to manage associated risks and prevent re-occurrence of such non-compliance incidents. Set forth below are key efforts we have made:

- **Fire safety policies.** We have established our detailed fire safety management policies, which require necessary fire safety facilities to be equipped at our operation sites, provide detailed guidance on the proper use of fire safety facilities, and provide for frequent inspection and maintenance of the electrical systems and fire safety equipment that we equip on our premises. We have also formulated evacuation plans, fire protection and rescue plans in the event of fire emergency, and have also installed signs for fire evacuation.
- **Personnel.** We have designated personnel at each of our sports destinations responsible for the fire safety. Duties of such fire safety manager includes review fire safety measures, prepare fire safety work plan and budget, conduct inspection and arrange for maintenance of fire safety equipment on a regular basis, organise fire safety trainings and fire drills, and identify and report to the management on material fire safety issue.
- **Equipment.** We equip our sports destinations with the proper fire safety equipment and systems, and regularly assess the need to repair and upgrade our equipment and facilities to achieve better ventilation, fire and heat protection.
- **Inspection.** We conduct daily inspection at our sports destinations over the electrical system and fire safety facilities. We also conduct daily checks at the evacuation routes and exit doors to ensure that the signs are properly installed, the evacuation routes are free from obstruction and the exit doors are unlocked. We also engage independent fire safety consultants to conduct inspection and carry out maintenance work over our fire safety facilities and equipment regularly.
- **Employee trainings.** We provide extensive and regular trainings on fire safety to our employees, which cover general fire safety awareness and knowledge, and trainings on proper use of fire safety equipment and emergency evacuation plans. We also organise fire drills at our sports destinations on a regular basis to familiarise our employees with our evacuation plan and increase their fire safety awareness.
- **Management of licenses and certificates.** We have established our license and certificate management policies, which, among others, govern the timely applications for the required fire safety procedures. Such policies require our new operation sites to be opened only after the necessary fire safety procedures are completed and the fire safety related licenses and certificates are obtained. In addition, we also designate dedicated personnel to manage licenses and certificates required for our business operations, who are responsible for monitoring the status and renewal of such fire safety related licenses and certificates in a timely manner.

BUSINESS

- ***Enhancement of fire safety compliance.*** We established policy to include fire safety compliance as one of the key assessment for acquisition and operation and cover fire safety compliance as part of our internal training.

Our PRC legal advisers are of the view that the above fire safety related non-compliance will not bring upon any material adverse effect on the [REDACTED] given that (i) the relevant sports parks are ultimately owned by the respective local governments or state-owned enterprises controlled by such governments, which are mainly responsible for completing the relevant fire safety procedures for the construction of such premises, and the above fire safety related non-compliance is mostly caused by the failure of such owners to complete the pre-requisite fire safety procedures, which shall not be handled by us and are practically beyond our control; (ii) the relevant ice-skating rinks are located at major shopping malls and all of the ice-skating rinks have passed the fire safety inspection and obtained the fire safety inspection certificates (消防安全檢查合格證) for public gathering places before their opening, and we have not made any material change to the overall fire safety facilities of such shopping malls during our decorations of the leased premises. In such cases, the risk of us being imposed administrative fines or penalty is relatively low based on our consultation with the relevant fire authorities. Even if we are imposed administrative penalty for not completing such recordation, the maximum amount of fine for each of the ice-skating rinks would be no more than RMB5,000; (iii) the revenue generated from the relevant premises only attributed to a small portion of our total revenue during the Track Record Period; (iv) no material fire accident took place at the relevant premises during the Track Record Period and up to the Latest Practicable Date; (v) except for the penalty disclosed in (vi) below, we were not subject to any administrative penalties by the relevant regulatory authorities due to the above fire safety related non-compliance during the Track Record Period; (vi) on 27 June 2022, one of our sports centres in Tianjin was requested to suspend its business operations temporarily and a fine of RMB30,000 was imposed on us by the competent fire control authority for not obtaining the fire safety inspection certificate before commencing its business operations. The fine has been fully paid by us and the revenue generated from such sports centre was relatively low during the Track Record Period. The competent fire control authority has issued a written certificate on 11 August 2022, confirming that we have been actively rectifying the non-compliance and there is no major potential fire hazard or serious violation of fire safety laws at the sports centre in Tianjin. For further details of this sports centre, please refer to the paragraph headed “Rectification” in this sub-section.

BUSINESS

Furthermore, with the rectification measures adopted, as disclosed in the sub-section headed “Rectification” in this section, the other non-compliant operating sites will not cause any material disruption to the Group’s business operations going forward. Besides, we have adopted various measures to mitigate our risks in respect of potential fire accidents, such as engaging independent fire safety consultants to regularly inspect and maintain fire safety facilities, equipping the sites with adequate and sufficient fire safety facilities and carrying out fire safety trainings and drills, and purchasing relevant insurance to cover our losses suffering from fire accidents, etc. Based on the above, our PRC legal advisers are of the view that the risk of us being further requested by local fire authorities to suspend our business operation of the relevant sports sites as a result of the above non-compliance is relatively low as long as we make our best efforts to rectify such non-compliance and continue to implement adequate and effective internal control measures and procedures to prevent re-occurrence of such non-compliance incidents, and our Directors are of the view that the above non-compliance will not have a material adverse effect on our overall operations and financial condition as a whole.

DATA PRIVACY PROTECTION

We are committed to protecting consumer data in our business operations. We collect certain data and information from consumers in connection with our business and are subject to data privacy laws in relevant jurisdictions we operate. The relevant data privacy laws may require consumers to consent to our data collection, usage and transfer. We have taken necessary measures to prevent the leakage of consumer data, such as formulating internal policies on customer data protection, taking appropriate encryption and anonymisation on personal data, external testing to identify any weakness in our cyber defences, and providing training to our employees to ensure their awareness of our internal policies in relation to customer data protection. We also have in place the policies, procedures, software and technology infrastructure to collect, use, store, retain and transmit our consumer data in compliance with applicable data protection laws and regulations of our major markets. See sections headed “Regulatory Overview – Laws and Regulations in the PRC – Regulations on information security and personal information – Personal information protection” and “Regulatory Overview – Relevant Laws and Regulations in the United Kingdom and United States – A. United Kingdom (UK) – 4. Data Protection and e-Privacy Laws” for further details.

BUSINESS

We collect customers’ personal information mainly from visitors and members of our sports park, sports centre and ice-skating rinks as well as online sales of our footwear and apparel. We process a customer’s personal information based on the legal requirements as provided under the applicable laws and regulations which may include obtaining the customer’s consent to the terms of our online data privacy policy, which specify the data we collect, store, use and may share with third parties. Such personal information may include: the customer’s nickname and phone number, for membership identity verification; gender, birth date and residing region, for the customer to receive certain benefits and services; brands and products purchased and purchase amounts, as part of our sales records; contact information, for product delivery services; phone number, username and password, for purposes of online shopping account registration; online view, search and purchase records, to provide online sales services; internet behavioural records, personal device information and location information, to provide personalised product or service recommendations. We own the consumer data that we collect through our own online channels, and we store and manage this data in our data center. We only share customers’ data for the purpose of providing services to our customers, such as product delivery and credit card payment processing. Opt-in consent is required for marketing activities. We assess the legality, appropriateness and necessity of such data sharing and require the third parties to protect the security of the data and strictly comply with relevant laws and regulations. Data regarding our customers’ online purchases made through third-party platforms are subject to those third-party platforms’ data governance policies.

Sufficient maintenance, storage and protection of consumer data and other related information is critical to our business. Our policy on data collection and protection practices primarily include: (i) requirements on processing personal information with legal basis, such as providing adequate notice to consumers as to how their data is being collected and used and obtaining their consent, (ii) encrypting and anonymising consumer data stored on our system, (iii) limiting access of consumer data to authorised employees, and (iv) making reasonable efforts to prevent loss or leakage of consumer data. Access to the original consumer data is prohibited unless approved in accordance with the “need to know basis” principle pursuant to our internal policies. We perform regular data security and privacy checks to ensure that the usage, maintenance and protection of consumer data are in compliance with our internal rules and applicable laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material consumer data privacy breach, leakage or dispute.

BUSINESS

CYBERSECURITY

On 28 December 2021, the Cyberspace Administration of China (國家互聯網信息辦公室)(the “CAC”), jointly with other PRC governmental authorities, promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》)(the “**Measures**”), which came into effect on 15 February 2022. Pursuant to Article 2 of the Measures, critical information infrastructure operators purchasing network products and services and online platform operators engaging in data processing activities, which affect or may affect national security, shall be subject to cybersecurity review. According to the verbal consultation (the “**Consultation**”) conducted by the Company and the Company’s PRC legal adviser with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心)(the “**Center**”) on 5 August 2022, which is the competent authority to provide views and interpretations relating to the Measures and the Regulation on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》)(the “**Draft Regulations**”), during which we notified the Center of our [REDACTED], it is confirmed by the Center that (i) critical information infrastructure operators are identified by the governmental authorities of the corresponding industry; (ii) if a company is not involved in the collection and processing activities of personal information through operating its own platform, such company would not be deemed as online platform operators; and (iii) if the activities of a company affect or may affect national security based on the factors set out in Article 10 of the Measures, the relevant governmental authorities will initiate cybersecurity review at their own discretion pursuant to Article 16 of the Measures.

As of the Latest Practicable Date, to the best knowledge of our Directors, (i) we had not been determined or identified as a critical information infrastructure operator by any governmental authorities; (ii) we believe that we are not an online platform operator engaged in any data processing activities that affect or may affect national security; (iii) we had not been involved in any investigations on cybersecurity review made by the CAC, and nor had we received any inquiry, notice, warning or sanctions in this regard. Based on the above and as advised by our PRC legal adviser, we believe it is unlikely for us to be determined or identified as a critical information infrastructure operator or an online platform operator engaging in data processing activities which affect or may affect national security, as long as there is no material change to our Group’s current business, and therefore it is unlikely for us to be subject to cybersecurity review under Article 2 of the Measures.

In addition, Article 7 of the Measures stipulates that an “online platform operator” which possesses personal information of over one million users and intends to be “[REDACTED]” shall be subject to cybersecurity review. According to the Consultation, it is confirmed by the Center that a company will not be subject to the cybersecurity review by virtue of seeking a [REDACTED] in Hong Kong under Article 7 of the Measures. Given that Hong Kong is not a country or region outside of the PRC, as long as there is no specific official guidance or implementation rules to include Hong Kong in the scope of “abroad” in the future, our PRC legal adviser is of the view that [REDACTED] in Hong Kong is unlikely to be considered as being “[REDACTED]”, and therefore it is unlikely for us to be subject to cybersecurity review for our proposed [REDACTED] under Article 7 of the Measures.

BUSINESS

On 14 November 2021, the CAC released the Draft Regulations for public comment, which provides the requirements for data processing activities through internet as well as the supervision and regulation of cyber data security within the PRC. As of the Latest Practicable Date, the Draft Regulations had not yet entered into force. According to the Draft Regulations, “cyber data” refers to any information that is electronically recorded, whereas “data processing activities” refers to activities such as data collection, storage, usage, processing, transmission, provision, disclosure and deletion. As advised by our PRC legal adviser, in general, by collecting, storing and otherwise processing certain information via internet in connection with our business operations, our Group would be subject to relevant requirements under the Draft Regulations in terms of personal data protection, cyber data security management, supervision and other applicable aspects, assuming the Draft Regulations is implemented in its current form. In addition, Article 13 of the Draft Regulations stipulates that data processors shall apply for cybersecurity review when carrying out activities including (i) seeking to be [REDACTED] in Hong Kong that affect or may affect national security; and (ii) other data processing activities that affect or may affect national security. According to the Consultation, it is confirmed by the Center that as the Draft Regulations is not yet in force, currently we are not required to comply with the requirements therein, and the applicability of various requirements under the Draft Regulations is still subject to the enactment of the final version of the Draft Regulation.

We believe that we would be able to comply with the Measures in all material aspects on the basis that we do not need to file an application for cybersecurity review to the CAC under Article 2 and Article 7 of the Measures at this stage. In addition, we believe that we would be able to comply with the Draft Regulations in all material aspects, assuming it is implemented in its current form, on the basis that (i) we do not need to file an application for cybersecurity review to the CAC under Article 13 of the Draft Regulations at this stage; (ii) as of the Latest Practicable Date, we had not been subject to any fines or administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to the infringement of cyber data protection laws and regulations; (iii) as of the Latest Practicable Date, we had not been involved in any investigations on cybersecurity review made by the CAC, nor had we received any inquiry, notice, warning, or sanctions in such respect; and (iv) we will closely monitor the legislative development of the Draft Regulations, continuously review and comply with the compliance measures and management system, and prepare for the corresponding compliance in advance. In light of the foregoing, our PRC legal adviser does not foresee any material obstacles for us to comply with the Measures and the Draft Regulations (if implemented in its current form) in all material aspects. Based on the above, we believe, as advised by our PRC legal adviser, that the Measures and the Draft Regulations (if implemented in its current form before the completion of the [REDACTED]) would not have a material adverse impact on our business operations or the [REDACTED] in Hong Kong.

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROLS

We are exposed to various risks in the course of our operations and have established risk management systems with policies and procedures that we believe are appropriate for our business operations. Our management is responsible for maintaining appropriate and effective risk management and internal control systems, and our Board is responsible for reviewing and monitoring the effectiveness of our Group’s risk management and internal control systems at least annually, covering financial, operational and compliance controls, to ensure that the systems in place are adequate and effective.

The risk management process of our Group would involve, among others, (i) identification of risks that may potentially affect our Group’s business and operations, (ii) risk assessment over their impact of the business and likelihood of occurrence, (iii) development of risk management strategies and internal control procedures for preventing or mitigating such risks; (iv) review of the implementation of the risk management strategies and internal control procedures and revise such policies when necessary; and (v) regular report to our Board and management team on the result of risk monitoring.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following internal control measures:

- (i) We have established an audit committee to review and supervise our financial reporting process and internal control system. The Audit Committee is responsible for reviewing our Company’s financial statements, annual reports, half-year reports, quarterly reports and risk management and internal control systems, as well as providing advice and comments thereon to our Board.
- (ii) We have engaged an internal control consulting firm to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review our implementation status of remedial actions.
- (iii) We have adopted various policies to ensure compliance with the Main Board Listing Rules, including aspects related to risk management, connected transactions and information disclosure.

BUSINESS

- (iv) By taking a zero-tolerance approach to corruption or malpractice of any form throughout our operation, we strictly prohibit the acceptance of money or any other gifts from outside entities such as customers, suppliers, contractors, authorities or other business partners. The relevant principles on responsible business conduct and anti-corruption measures were included in our employee handbook. We also provide periodic anti-corruption compliance training to our Board members and employees to update them on the latest anti-corruption enforcements and proper practice procedures.
- (v) A comprehensive financial monitoring system was implemented, which includes among others, (i) review of the tax provisions, monthly and quarterly financial statements of our Group on a regular basis; (ii) formulation of a unified accounting system to standardise the accounting standard within our Group; (iii) provision of weekly cash flow statement by our subsidiaries; (iv) implementation of a comprehensive budget monitoring and management system in which the annual budget for different business segments will be reviewed and approved by our Board; (v) regular performance review on the person responsible for each of the business segment; and (vi) dual reporting arrangement, i.e. the person responsible for each of the business segment shall report to both our head office and the business line.
- (vi) We have a strict quality control system which set out quality standard for various business processes, covering product design and development, procurement and product quality management. For instance, we have a team of experienced professionals to manage the quality of our product design and ensure the registration of the relevant intellectual property rights for the design. For further details on the quality control measures, please refer to “Quality Control” of this section.
- (vii) As part of our supply chain management and monitoring mechanism, we conduct audits, site visits and assessments on our suppliers regularly to ensure our stringent requirements are fully met. Areas of concern are identified and addressed through proactive corrective actions for future improvement. Suppliers who consistently fail to meet the expected standards may be subject to contract termination. This holistic approach enables us to develop long-term sustainable partnerships with our suppliers.
- (viii) A whistle-blowers policy is also in place to allow employees at all levels and other stakeholders to raise concerns regarding any misconduct. To ensure whistle-blowers have the freedom to report grievances without fear of reprisal, all cases are treated strict with confidentiality and submitted to designated personnel for further investigation.

BUSINESS

IMPACTS OF AND OUR RESPONSE TO COVID-19

Impacts on our Group

The outbreak of COVID-19 has adverse financial and operational impacts on our Group. Our revenue from sports experience business for FY2020 was adversely affected by the temporary closure of sports parks, sports centres and ice-skating rinks during February to March 2020 and postponement and cancellation of sports competitions and events resulted from the outbreak of COVID-19. Also, due to the lockdowns and social measures imposed to avoid the spreading of COVID-19, our revenue from retail stores for FY2020 also deteriorated temporarily. Nevertheless, with our strategies in expanding our retail network, our revenue from multi-brand apparel and footwear business was not materially affected.

Although the overall revenue of our Group in FY2022 recorded a significant increase due to completion of the First Clark Acquisition, the recurring waves of COVID-19 in Hong Kong and the PRC in 2022 had adversely affected our business operation and financial performance for the year. In particular, some of our directly-operated stores in Shanghai, Shenzhen and Shenyang, and all of our sports parks, sports centres and ice-skating rinks were temporarily closed down on several occasions, for a period of a few days to a few weeks for each time. In addition, the social distancing measures had lowered the foot traffic of our directly-operated stores, and many sports events, if not cancelled or delayed, were held without any live audience at e-sports tournaments and other sports events which resulted in a loss of revenue from entrance tickets.

Our Response to COVID-19

In response to COVID-19, we implemented the following measures at our sports destinations, retail stores, office premises and warehouses to better protect our employees. In terms of our Group’s internal arrangements, we have policies include (i) providing staff with anti-epidemic supplies such as medical masks and hand sanitisers; (ii) adopting flexible work arrangements (e.g. work from home) to minimise physical contact; (iii) requiring both staff to measure body temperature before entering our premises; (iv) offering one day of compensation leave for employees who had taken a vaccination dose; (v) reminding staff to maintain good personal hygiene by organising mental health-related workshops; and (vi) requiring staff members who work in the office, shops and warehouses physically to complete an online health declaration form on a weekly or bi-weekly basis.

Our policies for the operation of sports destinations and retail stores includes (i) requiring customers and visitors to measure body temperature before entering our premises; (ii) maintaining sufficient anti-epidemic supplies at our premises; (iii) imposing crowd control and social distancing measures at the relevant premise; and (iv) improving the sanitation level of the relevant premises by carrying out regular cleaning.

BUSINESS

For our multi-brand apparel and footwear business, given the outbreak of COVID-19 had lowered consumer sentiment for fashion products and reduced the foot traffic of retail stores, we increased the frequency and intensity of the discounts on our products in order to boost our sales and clear our inventory. For our sports destination development business, whilst our sports destinations are subject to temporary closures and crowd control restrictions, we put forward various cost control measures to mitigate our potential loss, such as reducing labour costs, cutting marketing expenses, and postponing capital expenditure. For our sports team and event management business, although the absence of live audience at e-sports tournaments and other sports events had led to a loss of revenue from entrance tickets, it had not materially and adversely affected our business operation or financial performance, and such loss was also partially compensated by the revenue from live-broadcasting.

We believe the above measures will help us to control the impact of COVID-19 on our business operations, and we have sufficient financial resources to navigate the uncertainties brought about by the COVID-19 pandemic. We will continue to closely monitor the development of COVID-19 and react in a timely manner. In view of the above, our Directors believe that the outbreak of COVID-19 would not have any material adverse impact on our Group’s operation and financial performance. However, the extent to which COVID-19 affects our future results of operations will depend on the duration and severity of the pandemic, the progress in administration of COVID-19 vaccines and development of new drugs and vaccines, and government measures to contain the pandemic, all of which are beyond our control.

Impact on the Clark Group

The outbreak of COVID-19 has adverse financial and operational impacts on the Clark Group which is a global footwear retailer and wholesaler with a seasonally driven business model. The impact of COVID-19, together with the government mandated lockdowns, reduced the demand for footwear which coincided with the commencement of the Spring/Summer season and the payment for new inventory, resulting in a significant working capital impact in 2020 that continued into 2021. For further details, see “Financial Information – Key Factors Affecting the Results of Operations of the Clark Group – Impact of COVID-19” in this document. Resurgence of COVID-19 in regions where our OEM suppliers and logistic services providers are located may result in delay in delivery of our finished products. If any finished products have become off-season due to delay in delivery by our suppliers, we may need to offer additional discount to our customers to lower our inventory level.

BUSINESS

The Clark Group’s Response to COVID-19

In terms of financial management, actions were taken by the Clark Group to reduce costs and cash outflow, such as, (i) reduction of capital expenditure and other discretionary expenditure where possible; (ii) extension of payment terms with the Clark Group’s suppliers to provide liquidity support for the Clark Group; and (iii) entering into company voluntary arrangement with landlords in November 2020 which allowed for compromises in rent arrears and adjusting from fixed rent to turnover rent basis for most leased properties for the coming three years.

In terms of business operation, the Clark Group has taken various steps to provide a safe work place and shopping areas for its staff and customers, including, amongst others, (i) provide cleaning, handwashing and hygiene procedures for its staff and locations, (ii) perform regular cleaning and sanitisation at its work place and shops; (iii) provide work from home arrangements for its staff, (iv) implement social distancing measures at its work place and shops to minimise transmission risks; and (v) ensure adequate ventilation in closed spaces.

In the first half of 2022, certain countries, including the UK and the US, had gradually removed pandemic-related restrictive measures which would be of benefit to the recovery of the global retail business. Our management will continue to monitor the development of COVID-19 at the relevant jurisdictions as well as its impact on the Clark Group’s operation and carry out appropriate response measures.