
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED], Lead Ahead, Dragon City and Victory Mind will continue to be entitled to exercise or control the exercise of [REDACTED] of the voting power at general meetings of our Company. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li Ning. Victory Mind is owned as to 57% by Ace Leader, all shares of which are held by TMF in its capacity as trustee of a discretionary trust, and Mr. Li Ning is the settlor of the trust and is therefore deemed to be interested in such Shares held by Victory Mind. As Lead Ahead, Dragon City and Victory Mind are controlled by Mr. Li Ning, Lead Ahead, Dragon City, Victory Mind and Mr. Li Ning are regarded as a group of Controlling Shareholders.

RELATIONSHIP WITH LI NING CO

Our Group acquired 25.23% of the issued ordinary shares of Li Ning Co in December 2012. As at the Latest Practicable Date, we held 271,201,543 ordinary shares in, representing 10.29% of the issued share capital of, Li Ning Co. Mr. Li Ning, our executive Director, chairman of our Board and chief executive officer is also an executive director, and the executive chairman and joint chief executive officer of Li Ning Co while Mr. Li Qilin, our executive Director also serves as an executive director of Li Ning Co.

Li Ning Co is mainly engaged in brand marketing, research and development, design, manufacturing, distribution and retail of professional and leisure footwear, sport apparel, equipment and accessories under the LI-NING brand and other licensed brands. Our Group has been sharing the results of LN Group and has accounted for such investment as “interest in an associate” of our Group in our consolidated financial statements.

Transactions with LN Group

During the Track Record Period, our Group had certain material related party transactions with LN Group. The following table sets forth the transaction amount relating to such transactions for the periods indicated:

	FY2020	FY2021	FY2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Revenue paid/payable to our Group</i>			
1. Sports-related marketing services	196,258	225,701	234,333
2. Sale of apparel and provision of footwear OEM services	3,974	67,637	239,679
3. Consultancy and other service income	586	2,618	4,517
<i>Cost and expense incurred by our Group</i>			
4. Purchase cost	7,543	9,542	14,834
5. Office and car-park rental expense	1,455	1,832	8,207
<i>Dividend income received by our Group</i>			
6. Dividend income	56,039	67,421	144,957

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For further details, please refer to note 38 to the Accountant’s Report of our Group in Appendix I to this document.

Save for the dividend income received from LN Group which is subject to the dividend policy of LN Group, the above transactions with LN Group will continue after the [REDACTED]. We expect that the size and scale of the transactions with LN Group will remain stable in the foreseeable future.

Decreasing revenue contribution from the LN Group

From time to time, our Group generates revenue through provision of sports-related marketing services and footwear OEM services as well as sales of apparel and footwear to LN Group. LN Group was the largest customer of our Group, which contributed to 24.6%, 21.4% and 6.9% of our Group’s total revenue for FY2020, FY2021 and FY2022, respectively.

Although the LN Group remained as our largest customer throughout the Track Record Period, its revenue contribution recorded a continuous decrease during the Track Record Period primarily due to our expansion and diversification of business through acquisitions and subsequent growth. In particular, our acquisitions of (i) “Bossini”, “Amedeo Testoni” and “Clarks” for the multi-brand apparel and footwear business; and (ii) operators of sports parks/sports centres, ice-skating rinks and LNG E-sports for the sports experience business, had enlarged and diversified our customer base and sources of revenue which are unrelated to LN Group.

Despite there was an increase in the revenue generated from our footwear OEM services provided to LN Group from HK\$54.4 million in FY2021 to HK\$224.9 million in FY2022 by HK\$170.5 million or 313.2%, such revenue accounted for merely 3.9% and 3.2% of our total revenue for FY2021 and FY2022 respectively. In addition, given that (i) we do not intend to carry out any significant expansion of our footwear OEM business or the related production facilities in foreseeable future; and (ii) we intend to prioritise production for our self-owned brands, we do not expect any significant increase in the revenue from our footwear OEM services provided to the LN Group in foreseeable future.

We also recorded a decreasing trend in our sports-related marketing services income from LN Group as a percentage of our revenue from sports experience business from 51.7% in FY2020 to 42.6% in FY2021 primarily due to our expansion and diversification of other sports experience business, such as sports destination development and e-sports team management, through acquisitions and subsequent growth. Percentage of our sports-related marketing services income from LN Group to our revenue from sports experience business remained relatively stable and increased slightly to 46.8% in FY2022 primarily due to (i) the decrease in our revenue from sports destination development business as a result of the temporary closure of our sports destinations amidst the resurgence of COVID-19 during the relevant period; and (ii) the decrease in our revenue from sports team management business as a result of the delay in recognition of revenue from e-sports tournaments pending confirmation by the event organiser. We expect the percentage of our sports-related marketing services income from LN Group to decrease gradually when we resume the operation of our sports destinations in full and recognise the revenue from our sports team management business.

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In addition, the revenue contribution from LN Group to our total revenue recorded a significant decrease from 21.4% in FY2021 to 6.9% in FY2022 following completion of the First Clark Acquisition in July 2022 since then the Clark Group’s financial results have been consolidated into that of our Group. The Clark Group (being the owner of “Clarks”) primarily engages in retail and wholesale of footwear globally with a focus on the UK and the US markets, and has a diversified customer base and supply chain that are unrelated to the LN Group. For the 52 weeks period ended 30 January 2021 and 29 January 2022, the Clark Group recorded a total revenue of £778.9 million (HK\$8,022.7 million) and £926.2 million (HK\$9,539.9 million), which represented 9.8 times and 6.9 times of our Group’s total revenue during FY2020 and FY2021, respectively. Taking into account the full-year effect of our consolidation of the Clark Group’s financial results going forward, it is expected that the revenue contribution from LN Group to our total revenue will continue to decrease.

Established relationship between our Group and LN Group

Common directorship

Mr. Li Ning has been an executive director and the chief chairman of Li Ning Co since March 2004, and our executive Director and chief executive officer since June 2010 after his controlled corporation, Lead Ahead, acquired control of our Company. In addition, Mr. Li Qilin has been an executive director of Li Ning Co since June 2018, and our executive Director since November 2015.

Shareholding

Our Group acquired 25.23% of the total issued shares of Li Ning Co in December 2012, and has been interested in over 10% of the total issued share capital of Li Ning Co since then. We have been sharing the results of LN Group and have accounted for such investment as “interest in an associate” of our Group in our consolidated financial statements.

Business co-operation

We have started to conduct business with the LN Group since 2017. During the Track Record Period, we generated revenue from LN Group through provision of sports-related marketing services, sale of apparel and provision of footwear OEM services. We also procured sports apparel from LN Group for onward sales at shops located at our sports destinations under our sports experience business.

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Mutual benefits for our Group and LN Group

In view of the above relationship between our Group and LN Group in terms of common directorship, shareholding and business co-operation, the two groups have developed a mutual and in-depth understanding of each other’s business operations. Accordingly, we consider that we are familiar with the specific requirements and expected deliverables of the LN Group, which creates mutual benefits for both groups. In particular, it helps reduce communication costs, accumulate tacit knowledge of service provisions and supply of products, establish mutual trust and has enabled us to provide high-quality services and products that could satisfy LN Group’s specific requirements. As a result, we have competitive advantage which distinguishes us from other competitors, and it is expected that the LN Group will continue to engage us for provision of services and supply of products.

Going forward, given (i) the established relationship between our Group and LN Group; (ii) our familiarity with the requirements of LN Group and our capability to provide quality services and products; (iii) the mutual benefits for our Group and LN Group to maintain such reciprocal relationship; (iv) we expect to continue to hold at least 10% of the issued share capital of Li Ning Co in near future; and (v) it is expected that Mr. Li Ning and Mr. Li Qilin will continue to act as the directors of both of our Company and Li Ning Co in near future, we expect to maintain our current business relationship with the LN Group, and it is unlikely for such relationship to be materially and adversely changed or terminated.

Business delineation between our Group and LN Group

We have two major business segments, namely multi-brand apparel and footwear and sports experience. Our revenue derived from our multi-brand apparel and footwear business accounted for 53.6% in FY2020, 61.6% in FY2021 and 92.7% in FY2022 of our total revenue. Whilst LN Group also engages in the sale of apparel and footwear, the apparel and footwear businesses between our Group and LN Group can be delineated without any direct competition. The following table sets out the differences between the apparel and footwear businesses of our Group and LN Group:

	Our Group	LN Group
Business strategies and segments	– Multi-brand sports and lifestyle apparel and footwear (excluding LI-NING brand)	– Single brand, multi-categories apparel and footwear for sports purposes – Equipment and accessories for sports purposes

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	Our Group	LN Group
Product types and target market	Apparel and footwear for casual and formal occasions, including “Clarks” for casual and dress footwear, “Bossini” for casual wear, “LNG” and “bossini.X” for streetwear and “Amedeo Testoni” for high-end leatherware	Athletic sportswear, footwear and equipment for sports purposes, such as basketball, running, training and badminton
Stages of value chain (in relation to our provision of footwear OEM services)	Provision of footwear OEM services to retailers	Retail sales to end customers
Strategic geographical coverage	Worldwide	Mainland China
Independent management team and their expertise (other than Mr. Li Ning and Mr. Li Qilin who are common board members of our Company and Li Ning Co)	<p>Mr. Li Chunyang has been managing our Group for more than ten years. He was one of the founders of “The Chinese Athletes Educational Foundation” and winner of the World Gymnastics Championships and has extensive networks in sports field.</p> <p>Mr. Victor Herrero, who is the chairman and a non-executive director of Bossini, a non-wholly owned subsidiary of our Company, joined our Board as non-executive Director in early 2021. Mr. Herrero who served as the chief executive officer and director of Guess Inc. (NYSE: GES), a company listed on the New York Stock Exchange, has extensive experience in corporate management and business operations in the consumables industry.</p>	Mr. Kosaka Takeshi, an executive director and joint chief executive officer of Li Ning Co, worked for Fast Retailing Co., Limited and worked in various division and Asian regions gaining extensive experience in supply chain, products and merchandising as well as retail management.

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As shown in the table above, the businesses of our Group and LN Group can be differentiated in terms of business strategies and segments, product types and target market, stages of value chain and geographical coverage. In addition, our Company and Li Ning Co have separate boards that function independently.

Different business strategies and segments

Our Group and LN Group have different business strategies and operate in different segments. Other than the LI-NING brand, LN Group manufactures, develops, markets, distributes and sells various sports products under other brands which are self-owned by or licensed to LN Group through its joint ventures or associates with third parties, including “Double Happiness”, “AIGLE”, “Danskin” and “Kason”, most of which have been maintained by LN Group for more than 10 years. To the best knowledge of the Directors, although LN Group continues to maintain such other brands due to long term relationship and cooperation with its business partners, LN Group primarily adopts a single brand strategy with an aim to enhance product and brand competitiveness of its core brand, the LI-NING brand, such that the LI-NING brand will become the favourite sports brand among Chinese consumers. This is different from our Group’s multi-brand strategy which targets at consumers of different target groups across the globe. We offer our apparel and footwear under various brands, including “Bossini”, “bossini.X”, “LNG”, “Clarks” and “Amedeo Testoni”, with different styles and product portfolio targeting at different customer groups.

Different product types, target market and stages of value chain

LN Group’s products are different from those of our Group in terms of product type, target market and style. For instance, while LN Group principally engages in the research and development, manufacture and sale of sports equipment, such as table tennis equipment under the “Double Happiness” brand and badminton equipment under the “Kason” brand, our Group does not engage in the sale of sports equipment.

In terms of apparel and footwear, while LN Group primarily offers athletic apparel and footwear to end customers for sports purposes, such as basketball, running, training and badminton, we offer different types of apparel and footwear targeting at different customer groups for various occasions and functions (other than professional sports activities) under various brands. Our self-owned brands comprises (i) “Bossini”, a casual wear brand, offering accessible apparel to customers of all age group; (ii) “Amedeo Testoni”, a luxury leatherware brand, offering high-end leather footwear; (iii) “Clarks”, a well-known British footwear brand, offering athleisure, modern casual and dress footwear for all age groups; (iv) “LNG”, a streetwear brand with ACGN elements; and (v) and “bossini.X”, a streetwear brand with sports element, offering streetwear and casual footwear to youngsters and millennials. In particular, “Clarks” accounted for 84.2% of our revenue from the multi-brand apparel and footwear business in FY2022 following completion of the First Clark Acquisition in July 2022. As such, the product types and target market of the apparel and footwear business between our Group and LN Group are fundamentally different.

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In respect of our provision of footwear OEM services, although we manufacture sports trainers, casual trainers and vulcanised shoes for footwear retailers (including LN Group), unlike LN Group, we are not engaged in the retail sales of professional sports footwear to end customers and we only act as the footwear OEM supplier in manufacturing sports trainers and related footwear components for LN Group and other footwear manufacturers. Furthermore, to the best knowledge of our Directors, LN Group primarily focuses on the retail of footwear and does not provide footwear OEM services to third party footwear retailers. Given the footwear business of LN Group and the footwear OEM services of our Group are located at different stages of the footwear business value chain, there is no direct competition between the two businesses.

Different geographical coverage

According to the 2021 annual report of Li Ning Co, 98.7% of the total revenue of LN Group was derived from the PRC market. Whilst LN Group focuses on the PRC market, our Group has established presence internationally. In particular, “Clarks” focuses on the UK and the US markets, “Bossini” focuses on the markets in Hong Kong and Singapore and “Amedeo Testoni” focuses on the markets in Europe, Hong Kong, Taiwan, Japan and South Korea. 36.5% and 41.0% of our total revenue from multi-brand apparel and footwear business was derived from the PRC for FY2020 and FY2021 respectively, and such percentage significantly decreased to 12.5% for FY2022 as a result of completion of the First Clark Acquisition in July 2022.

Different management team

Apart from Mr. Li Ning and Mr. Li Qilin, our Company and Li Ning Co have separate board members with diverse management expertise, and the board of the two companies function independently. For further details of our management independence, please refer to the sub-section headed “Independence from Controlling Shareholders – Management Independence” in this section.

In view of the above, LN Group is not in direct or indirect competition with our Group. Our Group has maintained strategic cooperation with LN Group and our Directors consider that a closer relationship between our Group and LN Group would enable the two companies to come closer in exploring strategic initiatives or development opportunities identified by either of them, including sports marketing and sponsorship opportunities and to promote the aligned utilisation of their resources in hand, including the talents or events managed by our Group and our Group’s sports community development projects. Our Group expects that the strategic cooperation with LN Group will not only bring positive impact to our Group’s financial performance in terms of revenue generation from time to time, but will also benefit from sharing of its results derived from greater demand for sports-related consumer products in the long run.

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INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates (other than our Group) taking into account the following factors:

Management Independence

Our business is managed and conducted by our Board and senior management of our Company. Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. For details, please refer to the section headed “Directors and Senior Management” in this document.

Our Directors consider that our Board and senior management are able to function independently of our Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a Director which require, amongst others, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his personal interest;
- (b) in the event that any Director or any of his/her close associates has a material interest in any transaction or arrangement or there is an actual or potential conflict of interest arising out of any transaction or arrangement to be entered into between our Group and any of our Directors or their respective associates, the Director(s) shall fully disclose such matters to our Board and abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum. Our Group has also adopted certain corporate governance measures for conflict situation, details of which are set out in the sub-section headed “Corporate Governance Measures” in this section;
- (c) with three independent non-executive Directors out of a total of nine Directors in our Board, there will be independent voice within our Board to counter-balance any situation involving a conflict of interest and to protect the interests of our independent Shareholders;
- (d) connected transactions between our Group and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the Main Board Listing Rules including the rules relating to annual reporting, review, announcement, circular and independent shareholders’ approval (where applicable);

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- (e) although Mr. Li Ning, being our ultimate Controlling Shareholder and executive Director, also holds directorship in Lead Ahead, Dragon City and Victory Mind respectively, we believe that our Board and senior management will function independently of our Controlling Shareholders on the basis that these companies are merely investment holding companies for holding equity interests in our Group, and Mr. Li Ning’s involvement and/or interests in these companies will not affect the discharge of his duties to our Group; and
- (f) our Board’s main functions include the approval of our Group’s overall business plans and strategies, monitoring the implementation of such business plans, strategies and policies, and the management of our Company. Our Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

Operational Independence

We have established our own organisational structure comprising individual departments, each with specific areas and responsibilities. We have also established a set of internal control mechanisms to facilitate the effective operations of our business. We have sufficient capital, facilities, equipment and employees to operate our business independently. We have our own operational and administrative resources and we do not share such resources with our Controlling Shareholders or other companies controlled by our Controlling Shareholders. We hold all the relevant licences and own all the relevant intellectual properties necessary to carry on our business. As such, our Directors consider that our Group can operate independently of our Controlling Shareholders.

Financial Independence

Our Directors are of the view that our Group is financially independent of our Controlling Shareholders and any of their respective close associates. We have an independent financial system and make financial decisions according to our own business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations. We have been and are capable of obtaining equity and debt financing from third parties. As at the Latest Practicable Date, our Controlling Shareholders and their respective close associates did not provide any financial assistance to our Group.

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CORPORATE GOVERNANCE MEASURES

We recognise the importance of good corporate governance in the protection of our Shareholders’ interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his/its associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted towards the quorum in the voting;
- (b) our Group has established internal control mechanisms to identify connected transactions. If our Group enters into connected transactions with a Controlling Shareholder or any of his/its associates, we will comply with the applicable Main Board Listing Rules;
- (c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, please refer to the paragraph headed “Directors and Senior Management – Board of Directors – Independent non-executive Directors” in this document;
- (d) our Directors will operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested except as permitted by the Articles;
- (e) where we reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses;
- (f) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by our independent non-executive Directors; and
- (g) where our Company maintains the engagement of a compliance adviser, such compliance adviser shall provide our Company with professional advice on compliance of continuing obligations under the Main Board Listing Rules in accordance with the provisions of the compliance adviser agreement and the requirements of the Main Board Listing Rules.