

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- During the year, we pursued stable progress and took proactive measures in planning, and recorded the following operating results:
 - Revenue rose by 7.0% to RMB27,598 million; gross profit margin remained at 48.4%
 - Net operating cash inflow increased by 19.8% to RMB4,688 million
 - Net profit attributable to equity holders was RMB3,187 million with net profit margin of 11.5%; while excluding the one-off gains not related to operation, net profit attributable to equity holders was RMB3,046 million with net profit margin of 11.0%
- Working capital remained at a healthy level:
 - The percentage of gross average working capital to revenue was 7.6%
 - The cash conversion cycle was 35 days
- The Board has recommended the payment of final dividend of RMB18.54 cents per ordinary share for the year ended 31 December 2023, together with the interim dividend of RMB36.20 cents per ordinary share paid in September 2023, the total dividend for the year ended 31 December 2023 will amount to RMB54.74 cents per ordinary share or a total dividend payout ratio of 45%.

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by low-teens, including online and offline channels.
- Channel inventory decreased by mid-single-digit comparing to end of last year. The inventory turnover and ageing structure remained at a healthy level.
- Offline channel new product sell-through increased by low-teens.

ANNUAL RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2023, together with comparative figures of 2022, as follows:

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		4,123,948	3,234,563
Right-of-use assets		2,184,054	2,022,229
Investment properties		1,560,455	1,802,227
Land use rights		154,654	158,781
Intangible assets		220,867	217,236
Deferred income tax assets		800,960	693,402
Other assets		203,074	287,707
Investments accounted for using the equity method		1,606,601	1,369,403
Investments measured at fair value through profit or loss		428,189	174,597
Other receivables		234,876	268,183
Long-term bank deposits		9,037,142	11,023,296
		<hr/>	<hr/>
Total non-current assets		20,554,820	21,251,624
Current assets			
Inventories	4	2,493,206	2,428,040
Other assets – current portion		838,175	831,578
Trade receivables	5	1,205,532	1,020,346
Other receivables – current portion		177,694	88,419
Restricted bank deposits		806	970
Short-term bank deposits		3,493,687	643,324
Cash and cash equivalents		5,443,883	7,382,218
		<hr/>	<hr/>
Total current assets		13,652,983	12,394,895
		<hr/>	<hr/>
Total assets		34,207,803	33,646,519
		<hr/> <hr/>	<hr/> <hr/>

		As at 31 December	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		239,546	240,320
Share premium		10,172,638	11,580,718
Treasury shares		(1,037,927)	(180,839)
Other reserves		2,021,513	1,792,412
Retained earnings		<u>13,010,871</u>	<u>10,896,819</u>
		24,406,641	24,329,430
Non-controlling interests in equity		<u>–</u>	<u>2,498</u>
Total equity		<u>24,406,641</u>	<u>24,331,928</u>
LIABILITIES			
Non-current liabilities			
License fees payable		8,581	15,531
Lease liabilities		1,825,288	1,473,905
Deferred income tax liabilities		627,231	518,731
Deferred income		<u>71,586</u>	<u>65,591</u>
Total non-current liabilities		<u>2,532,686</u>	<u>2,073,758</u>
Current liabilities			
Trade payables	6	1,789,796	1,584,424
Contract liabilities	3	552,537	252,090
Lease liabilities – current portion		716,665	667,762
Other payables and accruals		3,255,710	3,648,720
License fees payable – current portion		38,484	50,540
Current income tax liabilities		<u>915,284</u>	<u>1,037,297</u>
Total current liabilities		<u>7,268,476</u>	<u>7,240,833</u>
Total liabilities		<u>9,801,162</u>	<u>9,314,591</u>
Total equity and liabilities		<u>34,207,803</u>	<u>33,646,519</u>

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	3	27,598,491	25,803,383
Cost of sales	7	<u>(14,246,436)</u>	<u>(13,318,590)</u>
Gross profit		13,352,055	12,484,793
Selling and distribution expenses	7	(9,080,121)	(7,314,303)
Administrative expenses	7	(1,256,152)	(1,113,218)
Reversal of expected credit loss allowance for financial assets – net		19,638	24,321
Other income and other gains – net	8	<u>523,667</u>	<u>805,165</u>
Operating profit		3,559,087	4,886,758
Finance income	9	500,556	447,748
Finance expenses	9	<u>(181,446)</u>	<u>(120,561)</u>
Finance income – net	9	319,110	327,187
Share of profit of investments accounted for using the equity method		<u>377,972</u>	<u>201,155</u>
Profit before income tax		4,256,169	5,415,100
Income tax expense	10	<u>(1,069,207)</u>	<u>(1,351,329)</u>
Profit for the year		3,186,962	4,063,771
Profit is attributable to:			
Equity holders of the Company		3,186,910	4,063,834
Non-controlling interests		<u>52</u>	<u>(63)</u>
		<u>3,186,962</u>	<u>4,063,771</u>
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	11	<u>123.21</u>	<u>155.38</u>
Diluted earnings per share	11	<u>122.66</u>	<u>154.34</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit for the year	3,186,962	4,063,771
Other comprehensive loss:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(2,173)</u>	<u>(8,383)</u>
Total comprehensive income for the year	<u>3,184,789</u>	<u>4,055,388</u>
Attributable to:		
Equity holders of the Company	3,184,737	4,055,451
Non-controlling interests	<u>52</u>	<u>(63)</u>
Total comprehensive income for the year	<u>3,184,789</u>	<u>4,055,388</u>

Notes:

1. General information

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

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

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

These consolidated financial results are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial results have been approved for issue by the Board on 19 March 2024.

2. Basis of preparation and accounting policies

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

(a) *Compliance with IFRS Accounting Standards and HKCO*

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

(b) *Historical cost convention*

The consolidated financial results have been prepared on a historical cost basis, except for certain financial assets which are measured at fair value.

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

The Group has applied the following new and amended standards for the first time for the annual reporting period commencing 1 January 2023:

Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>
IFRS 17	<i>Insurance Contracts</i>

The new and amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) *New and amended standards not yet adopted*

Certain amendments to accounting standards have been published but are not mandatory for 31 December 2023 reporting period and have not been early adopted by the Group. These amendments are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

	<i>Amendments and interpretations</i>	<i>Effective date</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	<i>Annual periods beginning on or after 1 January 2024</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i>	<i>Annual periods beginning on or after 1 January 2024</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	<i>Annual periods beginning on or after 1 January 2024</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>	<i>Annual periods beginning on or after 1 January 2024</i>
Amendments to IAS 21	<i>Lack of Exchangeability</i>	<i>Annual periods beginning on or after 1 January 2025</i>
Amendments to IAS 28 and IFRS 10	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	<i>Undetermined</i>

3. **Segment information and revenue**

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

The Group is principally engaged in a single line of business of sporting goods and Management reviews the performance of the Group as a whole, thus there is only one reportable segment and no segment information is presented.

The Group’s principal market is the PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region) and its sales to overseas customers contributed to less than 10% of revenue. Also, none of the Group’s non-current assets is located outside the PRC. Accordingly, no geographical information is presented.

(a) *Revenue from contracts with customers*

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

Revenue breakdown by product category:

	Year ended 31 December	
	2023	2022
	RMB’000	RMB’000
Footwear	13,389,080	13,478,630
Apparel	12,410,785	10,708,594
Equipment and accessories	1,798,626	1,616,159
Total	27,598,491	25,803,383

Revenue breakdown by sales channel:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
The PRC market		
Sales to franchised distributors	12,628,028	12,551,862
Sales from direct operation	6,907,451	5,330,434
Sales from e-commerce channel	7,531,410	7,465,297
Other regions	531,602	455,790
Total	27,598,491	25,803,383

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

The Group has a large number of customers. For the years ended 31 December 2023 and 2022, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

(b) *Liabilities related to contracts with customers*

	2023 RMB'000	2022 RMB'000
Contract liabilities – advances from customers	480,425	166,123
Contract liabilities – customer loyalty programme	72,112	85,967
Total	552,537	252,090

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

Significant change in contract liabilities

The increase in contract liabilities in 2023 was mainly due to the increase in advances received from customers in relation to the sales orders of sporting goods at the end of the reporting period.

Revenue recognised in relation to contract liabilities

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Contract liabilities – advances from customers	166,123	258,265
Contract liabilities – customer loyalty programme	85,967	87,570
Total	252,090	345,835

4. Inventories

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Raw materials	32,009	19,302
Work in progress	17,812	31,783
Finished goods	<u>2,578,112</u>	<u>2,497,486</u>
	2,627,933	2,548,571
Less: provision for write-down of inventories to net realisable value	<u>(134,727)</u>	<u>(120,531)</u>
	<u><u>2,493,206</u></u>	<u><u>2,428,040</u></u>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB13,856,610,000 for the year ended 31 December 2023 (2022: RMB12,979,293,000), which included inventory provision of RMB14,196,000 (2022: RMB26,852,000).

5. Trade receivables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Accounts receivable	1,243,747	1,172,857
Less: expected credit loss allowance for trade receivables	<u>(38,215)</u>	<u>(152,511)</u>
	<u><u>1,205,532</u></u>	<u><u>1,020,346</u></u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
0 – 30 days	581,522	579,558
31 – 60 days	384,449	305,891
61 – 90 days	99,505	99,031
91 – 180 days	157,530	74,865
Over 180 days	<u>20,741</u>	<u>113,512</u>
	<u><u>1,243,747</u></u>	<u><u>1,172,857</u></u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
As at 1 January	152,511	208,281
Reversal of expected credit loss allowance for trade receivables	(20,592)	(23,114)
Trade receivables written off during the year as uncollectible	(93,703)	(33,816)
Effect of change in exchange rate	<u>(1)</u>	<u>1,160</u>
As at 31 December	<u><u>38,215</u></u>	<u><u>152,511</u></u>

6. Trade payables

Trade payables are mainly denominated in RMB. The normal credit period for trade payables generally ranges from 30 to 60 days. Ageing analysis of trade payables based on invoice date at the respective balance sheet date is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
0-30 days	1,507,160	1,224,526
31-60 days	274,316	309,672
61-90 days	4,661	1,758
91-180 days	930	9,699
181-365 days	1,759	15,622
Over 365 days	970	23,147
	<u>1,789,796</u>	<u>1,584,424</u>

7. Expenses by nature

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cost of inventories recognised as expenses and included in cost of sales	13,856,610	12,979,293
Depreciation on property, plant and equipment (<i>Note a</i>)	1,015,519	732,178
Amortisation of land use rights and intangible assets	55,447	49,343
Depreciation on right-of-use assets	761,748	611,447
Impairment of right-of-use assets	208,028	–
Impairment of property, plant and equipment	115,463	–
Impairment of goodwill	11,462	–
Advertising and marketing expenses	2,496,218	2,279,152
Commission and trade fair related expenses	811,291	723,209
Staff costs, including directors' emoluments (<i>Note a</i>)	2,391,725	1,989,282
Short-term lease rentals and variable lease payments not included in lease liabilities and rental related expenses	1,168,605	834,067
Research and product development expenses (<i>Note a</i>)	618,183	534,156
Transportation and logistics expenses	914,562	898,173
Auditor's remuneration		
– Audit services	6,680	6,220
– Non-audit services	2,675	1,345
Management consulting expenses	<u>124,551</u>	<u>110,366</u>

Note:

- (a) Research and product development expenses include depreciation on property, plant and equipment and staff costs in Research & Development Department, which are also included in depreciation expense and staff costs as disclosed above.

8. Other income and other gains – net

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Government grants (<i>Note</i>)	417,319	461,727
Fair value gains on wealth management products measured at fair value through profit or loss	80,370	140,550
License fees income	50,178	131,949
Rental income	47,293	77,935
Depreciation and related expenses on investment properties under operating leases	(76,274)	(60,826)
Fair value gains on investments measured at fair value through profit or loss	4,781	53,830
	<u>523,667</u>	<u>805,165</u>

Note:

Government grants were received from several local government authorities as a recognition of the Group's contribution towards the local economic development. Among the government grants recognised during the year ended 31 December 2023, the entitlement of an aggregate amount of RMB392,455,000 (2022: RMB436,751,000) was unconditional and at the discretion of the relevant authorities, while the remaining amount of RMB24,864,000 (2022: RMB24,976,000) was credited to profit or loss from deferred income in accordance with the fulfillment of the respective conditions attaching to the government grants.

9. Finance income and expenses

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Finance income		
Interest income on bank balances and deposits	476,739	353,987
Net foreign currency exchange gain	23,817	93,761
	<u>500,556</u>	<u>447,748</u>
Finance expenses		
Amortisation of discount – license fees payable	(1,993)	(2,363)
Amortisation of discount – lease liabilities	(144,488)	(99,035)
Borrowing interests	(16,006)	(3,391)
Others	(18,959)	(15,772)
	<u>(181,446)</u>	<u>(120,561)</u>
Finance income – net	<u>319,110</u>	<u>327,187</u>

10. Income tax expense

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current income tax		
– Corporate income tax (b)	1,020,748	1,234,410
– Withholding income tax on dividends and interests from subsidiaries in Mainland China (c)	<u>47,517</u>	<u>10,888</u>
	<u>1,068,265</u>	<u>1,245,298</u>
Deferred income tax	<u>942</u>	<u>106,031</u>
Income tax expense	<u><u>1,069,207</u></u>	<u><u>1,351,329</u></u>

Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) For the year ended 31 December 2023, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (2022: 25%) on the taxable profits of each of the group companies, except for one of the Group's subsidiaries incorporated in Guangxi Zhuang Autonomous Region which is subject to preferential tax rate of 9% (2022: 9%). Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2022: 16.5%).
- (c) This mainly arose from the dividends and interests due by the Company's subsidiaries in Mainland China to other group companies in Hong Kong during the years ended 31 December 2023 and 2022, which are subject to withholding tax at the rate of 5% (in connection with dividends) and 7% or 10% (in connection with interests) respectively.

11. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for the restricted share award scheme adopted by the Company on 14 July 2016 (the "Restricted Share Award Scheme") and shares repurchased by the Company for cancellation during the year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of offer securities which included the issuance of both ordinary shares and convertible securities. The below market subscription price of these two events had effectively resulted in 247,000 ordinary shares of the Company (31 December 2022: 249,000 ordinary shares of the Company) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of convertible securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2022.

	2023	2022
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>3,186,910</u>	<u>4,063,834</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>)	<u>2,586,489</u>	<u>2,615,354</u>
Basic earnings per share (<i>RMB cents</i>)	<u><u>123.21</u></u>	<u><u>155.38</u></u>

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under share option schemes and Restricted Share Award Scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2023	2022
Profit attributable to equity holders of the Company, used to determine diluted earnings per share (<i>RMB'000</i>)	<u>3,186,910</u>	<u>4,063,834</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>)	2,586,489	2,615,354
Adjustment for the restricted shares (<i>in thousands</i>)	8,803	5,545
Adjustment for the share option schemes (<i>in thousands</i>)	<u>2,840</u>	<u>12,181</u>
Deemed weighted average number of shares for diluted earnings per share (<i>in thousands</i>)	<u>2,598,132</u>	<u>2,633,080</u>
Diluted earnings per share (<i>RMB cents</i>)	<u>122.66</u>	<u>154.34</u>

12. Dividends

(a) Dividends payable to equity holders of the Company attributable to the current financial year

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend of RMB36.20 cents (2022: nil) per ordinary share, paid out of retained earnings of the Company	954,636	–
Proposed final dividend of RMB18.54 cents (2022: RMB46.27 cents) per ordinary share, payable/paid out of share premium of the Company	<u>479,473</u>	<u>1,220,193</u>
	<u>1,434,109</u>	<u>1,220,193</u>

The proposed final dividend for the year ended 31 December 2023 is not reflected as a dividend payable in the financial results, but will be reflected as an appropriation of share premium in the year ending 31 December 2024.

The percentage of total dividend paid/payable in respect of the year ended 31 December 2023 to profit attributable to equity holders is 45% (2022: 30%).

(b) Dividends payable to equity holders of the Company attributable to the previous financial year

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the year ended 31 December 2022 of RMB46.27 cents (2021: RMB45.97 cents) per ordinary share, paid out of share premium of the Company	<u>1,220,193</u>	<u>1,194,720</u>

13. Events after the balance sheet date

(a) *Cancellation of repurchased shares after the balance sheet date*

On 23 January 2024, the Company cancelled 40,937,500 repurchased shares which were included in treasury shares as at 31 December 2023. As a result, the Company recognised a debit to ordinary shares of HK\$4,094,000 (equivalent to approximately RMB3,723,000), a debit to share premium of HK\$774,658,000 (equivalent to approximately RMB701,982,000) and a credit to treasury shares of HK\$778,752,000 (equivalent to approximately RMB705,705,000) respectively.

(b) *Completion of acquisition after the balance sheet date*

On 10 December 2023, the Group entered into a sale and purchase agreement (the “SPA”) with an independent third party, pursuant to which the Group has conditionally agreed to (1) acquire the entire share capital of Vansittart Investment Limited (the “Target Company”, a company incorporated in Hong Kong with limited liability) (the “Sale Shares”) and (2) take up the assignment of the loan amount owing by the Target Company to one of its related parties as at the date of completion of the above acquisition (the “Sale Loan”) (collectively, the “Acquisition”). The Target Company is principally engaged in property investment and is the sole legal and beneficial owner of a property located in Hong Kong, which is the principal asset of the Target Company.

The aggregate consideration for the Acquisition is HK\$2,208 million (which is subject to adjustment as agreed under the SPA). As at 31 December 2023, the Group paid a deposit of HK\$221 million pursuant to the SPA and such amount was recorded as other assets in the consolidated balance sheet, and the remaining amount of the consideration of HK\$1,987 million (which is subject to adjustment as agreed under the SPA) was payable on or before the completion of the Acquisition.

Pursuant to the SPA, the completion of the Acquisition took place on 28 January 2024 at the aggregate consideration of HK\$2,221 million which had reflected the adjustments made to the consideration in accordance with the SPA (the “Adjusted Consideration”, which is subject to certification by the Group as agreed under the SPA). Save for the deposit of HK\$221 million (equivalent to approximately RMB200 million) paid in December 2023, the Group had paid the remaining amount of the Adjusted Consideration in January 2024, which amounted to HK\$2,000 million (equivalent to approximately RMB1,813 million).

Up to the approval date of the consolidated financial results, the Group is in the process of determining the accounting treatment for the transaction in accordance with IFRS Accounting Standards.

FINAL DIVIDEND

The Board has recommended the payment of final dividend of RMB18.54 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2023 (2022: RMB46.27 cents). The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting (the “AGM”) to be held on 13 June 2024 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People’s Bank of China on 13 June 2024. Such dividend will not be subject to any withholding tax. Upon approval by the shareholders of the Company, the proposed final dividend will be paid:

- (i) on 28 June 2024 to ordinary shareholders whose names shall appear on the register of members of the Company on 20 June 2024;
- (ii) on 28 June 2024 to holders of convertible securities issued under the open offer of offer securities of the Company as set out in the listing document of the Company dated 9 January 2015 and remain outstanding on 20 June 2024; and
- (iii) on 4 July 2024 (i.e. the third business day after 28 June 2024) to holders of convertible securities issued under the open offer of convertible securities of the Company as set out in the listing document of the Company dated 27 March 2013 and remain outstanding on 20 June 2024.

For the avoidance of doubt, any convertible securities subject to a conversion notice completed, executed and deposited on or before the final dividend record date (being 20 June 2024) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the convertible securities, please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The Company declared an interim dividend of RMB36.20 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the six months ended 30 June 2023 (2022: nil) on 10 August 2023, and such interim dividend has been paid in September 2023.

CLOSURE OF REGISTER OF MEMBERS AND HOLDERS OF CONVERTIBLE SECURITIES

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 13 June 2024 and shareholders and holders of convertible securities of the Company qualifying for the proposed final dividend to be approved at the AGM, the register of members and register of holders of convertible securities of the Company will be closed as set out below:

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

Latest time to lodge transfer documents	4:30 p.m. on 6 June 2024 (Thursday)
Period of closure of register of members	7 June 2024 (Friday) to 13 June 2024 (Thursday) (both days inclusive)
Record date	13 June 2024 (Thursday)
AGM date	13 June 2024 (Thursday)

In order to qualify for attending and voting at the AGM, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before the above latest time to lodge transfer documents.

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

Latest time to lodge transfer documents	4:30 p.m. on 18 June 2024 (Tuesday)
Period of closure of register of members and register of holders of convertible securities	19 June 2024 (Wednesday) to 20 June 2024 (Thursday) (both days inclusive)
Final dividend record date	20 June 2024 (Thursday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before the above latest time to lodge transfer documents.

During the above closure periods, no transfer of shares or convertible securities of the Company will be registered.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The key operating and financial performance indicators of the Group for the year ended 31 December 2023 are set out below:

	Year ended 31 December		Change
	2023	2022	(%)
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	27,598,491	25,803,383	7.0
Gross profit	13,352,055	12,484,793	6.9
Operating profit	3,559,087	4,886,758	(27.2)
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	6,157,208	6,541,707	(5.9)
Profit attributable to equity holders	3,186,910	4,063,834	(21.6)
Basic earnings per share (RMB cents) (Note 2)	123.21	155.38	(20.7)

Key financial ratios

Profitability ratios

Gross profit margin (%)	48.4	48.4	–
Operating profit margin (%)	12.9	18.9	(6.0)
Effective tax rate (%)	25.1	25.0	0.1
Margin of profit attributable to equity holders (%)	11.5	15.7	(4.2)
Return on equity attributable to equity holders (%) (Note 3)	13.1	17.9	(4.8)

Expenses to revenue ratios

Staff costs (%)	8.7	7.7	1.0
Advertising and marketing expenses (%)	9.0	8.8	0.2
Research and product development expenses (%)	2.2	2.1	0.1

31 December 2023 31 December 2022

Balance sheet items

(All amounts in RMB thousands unless otherwise stated)

Total assets	34,207,803	33,646,519
Capital and reserves attributable to equity holders	24,406,641	24,329,430

Key financial ratios

Asset efficiency

Average inventory turnover (days) (Note 4)	63	58
Average trade receivables turnover (days) (Note 5)	15	14
Average trade payables turnover (days) (Note 6)	43	42

Asset ratios

Debt-to-equity ratio (%) (Note 7)	40.2	38.3
Net asset value per share (RMB cents) (Note 8)	948.27	926.23

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the year, excluding the sum of income tax expense, finance income – net, depreciation and impairment on property, plant and equipment, depreciation on investment properties under operating leases, amortisation of land use rights and intangible assets and depreciation and impairment on right-of-use assets.
2. Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme and shares repurchased by the Company for cancellation during the year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.
3. The calculation of return on equity attributable to equity holders is based on the profit attributable to equity holders of the Company for the year, divided by the average of opening and closing balances of capital and reserves attributable to equity holders of the Company of the year.
4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by the total number of days in the year.
5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by the total number of days in the year.
6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by the total number of days in the year.
7. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
8. The calculation of net asset value per share is based on the net asset value, divided by the number of shares in issue less shares held for Restricted Share Award Scheme at the end of the year.

* *The aforesaid indicators provided by the Group may not necessarily be the same in terms of similar calculation methods as those provided by other issuers.*

** *The Group adopted the aforesaid non-GAAP financial indicators such as EBITDA, margin of profit attributable to equity holders, return on equity attributable to equity holders, expenses (staff costs/advertising and marketing expenses/research and product development expenses) to revenue ratio, average inventory/trade receivables/trade payables turnover days, debt-to-equity ratio and net asset value per share because comparable companies in the industry in which the Group operates use the aforesaid common indicators as a supplementary measurement for results of operation, which are also widely used by investors to measure the results of operation of the comparable companies.*

Revenue

The Group's revenue for the year ended 31 December 2023 amounted to RMB27,598,491,000 (2022: RMB25,803,383,000), representing an increase of 7.0% as compared to that of 2022. In 2023, thanks to the successful prevention and control of the COVID-19 pandemic and the domestic recovery of economic and social activities, the Group actively participated in the sponsorship and promotion for various sports events and offline activities, providing professional sports equipment and services to event personnel and consumers. Also, the Group has always insisted that only with professional ability and attitude can professional products be created, and never stray from its original aspiration by serving the public and consumers with sportsmanship to win consumer trust and choice. Changes in revenue from all channels during the year were as follows: (1) the strategic layout of directly-operated stores was effective in providing consumers with more comprehensive product display, professional offline experience and outstanding service team, resulting in a growth rate of 29.6% year-on-year for the directly-operated revenue; (2) affected by the changing environment of the online platforms, the Group continued to put in resources efficiently and increased efforts in the development of various platforms, thereby maintaining stable revenue with a slight increase of 0.9% year-on-year; and (3) in order to support the sound development of the distributors and maintain its healthy operating conditions, the Group curbed some futures orders upon thorough communication with the distributors, thereby maintaining stable distribution revenue with a slight increase of 0.6% year-on-year.

Revenue breakdown by product category

	Year ended 31 December				Revenue Change (%)
	2023	% of total revenue	2022	% of total revenue	
	RMB'000		RMB'000		
Footwear	13,389,080	48.5	13,478,630	52.2	(0.7)
Apparel	12,410,785	45.0	10,708,594	41.5	15.9
Equipment and accessories	1,798,626	6.5	1,616,159	6.3	11.3
Total	27,598,491	100.0	25,803,383	100.0	7.0

Revenue breakdown (in %) by sales channel

	Year ended 31 December		Change (%)
	2023	2022	
	% of revenue	% of revenue	
The PRC market			
Sales to franchised distributors	45.8	48.5	(2.7)
Sales from direct operation	25.0	20.7	4.3
Sales from e-commerce channel	27.3	29.0	(1.7)
Other regions	1.9	1.8	0.1
Total	100.0	100.0	–

Revenue breakdown by geographical location

	Note	Year ended 31 December				Revenue Change (%)
		2023	% of revenue	2022	% of revenue	
		RMB'000		RMB'000		
The PRC market						
Northern region	1	13,007,856	47.2	11,987,993	46.4	8.5
Southern region	2	14,059,033	50.9	13,359,600	51.8	5.2
Other regions		531,602	1.9	455,790	1.8	16.6
Total		27,598,491	100.0	25,803,383	100.0	7.0

Notes:

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

Cost of Sales and Gross Profit

For the year ended 31 December 2023, the overall cost of sales of the Group amounted to RMB14,246,436,000 (2022: RMB13,318,590,000), and the overall gross profit margin was 48.4% (2022: 48.4%), which remained flat as compared with that of the previous year. During the year, the Group improved the discount at directly-operated offline stores, leading to a slight increase in gross profit margin. However, with the increasingly competitive environment online, the gross profit margin of e-commerce channel dropped. Overall, the Group's gross profit margin remained stable.

Selling and Distribution Expenses

For the year ended 31 December 2023, the Group's overall selling and distribution expenses amounted to RMB9,080,121,000 (2022: RMB7,314,303,000), representing a year-on-year increase of 24.1%; the selling and distribution expenses accounted for 32.9% (2022: 28.3%) of the Group's total revenue with a year-on-year increase of 4.6 percentage points.

During the year, along with the increase in revenue from direct operation, rental, wages and bonuses of direct sales staff that related to revenue recorded increases to varying degrees. In order to enhance brand value and promote consumption, the Group increased the expenses in relation to advertising, promotion and sponsorship during the year. Meanwhile, owing to the Company's planning and adjustment in high-tier markets, there was a relatively significant increase in fixed rental of retail stores and amortisation charges of props for store fittings, and provisions have been made for asset impairment of certain loss-making stores. As a result, selling and distribution expenses recorded a relatively large increase.

Administrative Expenses

For the year ended 31 December 2023, the Group's overall administrative expenses amounted to RMB1,256,152,000 (2022: RMB1,113,218,000), accounting for 4.6% (2022: 4.3%) of the Group's total revenue with a year-on-year increase of 0.3 percentage points. Administrative expenses mainly comprised staff costs, management consulting fees, depreciation and amortisation charges, research and product development expenses, taxes and other miscellaneous daily expenses.

The increase in administrative expenses during the year was mainly attributable to the growth of research and product development expenses, tax increase arising from the revenue growth as well as the increase in daily expenses after the pandemic.

Share of Profit of Investments Accounted for Using the Equity Method

For the year ended 31 December 2023, the Group's share of profit of investments accounted for using the equity method amounted to RMB377,972,000 (2022: RMB201,155,000), among which, the Group shared the one-off gains not related to operation of RMB140,457,000 in relation to the disposal of certain land parcels held by one of its associates during the year.

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

For the year ended 31 December 2023, the Group's EBITDA amounted to RMB6,157,208,000 (2022: RMB6,541,707,000), representing a year-on-year decrease of 5.9%, while excluding the one-off gains not related to operation, the EBITDA was RMB6,016,751,000, representing a year-on-year decrease of 8.0%.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Reconciliation of profit for the year to EBITDA:		
Profit for the year	3,186,962	4,063,771
Income tax expense	1,069,207	1,351,329
Finance income	(500,556)	(447,748)
Finance expenses (including amortisation of discount on lease liabilities)	181,446	120,561
Depreciation on property, plant and equipment	1,015,519	732,178
Impairment of property, plant and equipment*	115,463	–
Amortisation of land use rights and intangible assets	55,447	49,343
Depreciation on right-of-use assets	761,748	611,447
Impairment of right-of-use assets*	208,028	–
Depreciation on investment properties under operating leases	63,944	60,826
EBITDA	<u>6,157,208</u>	<u>6,541,707</u>

* Impairment charges included as an adjustment item in EBITDA primarily resulted from our impairment evaluation of non-current assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If these non-current assets were not impaired, depreciation of the assets would have been recorded as an adjustment item in EBITDA. Therefore, impairment charges were a non-cash item similar to depreciation and amortization of non-current assets.

Finance Income – Net

For the year ended 31 December 2023, the Group's net finance income amounted to RMB319,110,000 (2022: RMB327,187,000). During the year, the interest expenses recognised on lease liabilities increased; the exchange gains decreased; and the Group has made adjustment to its currency investment portfolio where more funds were deposited in the form of fixed term deposits for more stable returns, which led to the year-on-year growth of interest income. Taking into account the above factors, the net finance income recorded a decrease during the year.

Income Tax Expense

For the year ended 31 December 2023, the income tax expense of the Group amounted to RMB1,069,207,000 (2022: RMB1,351,329,000) and the effective tax rate was 25.1% (2022: 25.0%). Currently, the Group's income tax expense is almost in line with the standard level.

Overall Profitability Indicators

The Group's revenue growth for the year had slowed down and the gross profit margin remained flat as compared with the previous year. In order to promote consumption, the Group devoted more resources in this regard accordingly, resulting in an increase in expenses; also other gains decreased in the meanwhile. During the year, the Group's profit attributable to equity holders amounted to RMB3,186,910,000 (2022: RMB4,063,834,000), representing a year-on-year decrease of 21.6%, while excluding the one-off gains not related to operation, the profit attributable to equity holders was RMB3,046,453,000, representing a year-on-year decrease of 25.0%. The margin of profit attributable to equity holders was 11.5% (2022: 15.7%), while excluding the one-off gains not related to operation, the margin of profit attributable to equity holders was 11.0%. The return on equity attributable to equity holders was 13.1% (2022: 17.9%), while excluding the one-off gains not related to operation, the return on equity attributable to equity holders was 12.5%.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2023 was the same as that in 2022. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers that this policy can ensure appropriate provision for inventories made by the Group.

As at 31 December 2023, the accumulated provision for inventories was RMB134,727,000 (31 December 2022: RMB120,531,000). During the year, the original value of inventory increased from the beginning of the year, which led to the year-on-year growth of provision for inventories. Currently, the overall inventory ageing structure is reasonable, and the Group will continue to monitor the inventory status to maintain it at a healthy level.

Expected Credit Loss Allowance

The Group's policy in respect of provision of doubtful debts for 2023 was the same as that in 2022. The expected credit loss allowance was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 31 December 2023, the accumulated expected credit loss allowance was RMB45,738,000 (31 December 2022: RMB159,200,000), among which the accumulated expected credit loss allowance for trade receivables was RMB38,215,000 (31 December 2022: RMB152,511,000) and the accumulated expected credit loss allowance for other receivables was RMB7,523,000 (31 December 2022: RMB6,689,000). The trade receivables and other receivables written off during the year as uncollectible and the effect of change in exchange rate amounted to RMB93,824,000 (2022: RMB32,669,000). During the year, certain long-aged and uncollectible doubtful debts were written off, and the expected credit loss allowance decreased significantly as compared to the beginning of the year. The Group will continue to focus on the continuous optimization of the ageing structure to maintain a sound receivable turnover ratio.

Liquidity and Financial Resource

The Group's net cash generated from operating activities for the year ended 31 December 2023 amounted to RMB4,687,936,000 (2022: RMB3,913,604,000). As at 31 December 2023, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB5,443,883,000, representing a net decrease of RMB1,938,335,000 as compared with the position as at 31 December 2022. Adding back the amount recorded as fixed-term deposits held at banks, cash balance amounted to RMB17,974,712,000, representing a net decrease of RMB1,074,126,000 as compared to 31 December 2022. The decrease was due to the following items:

Item	Year ended 31 December 2023 RMB'000
Operating activities:	
Net cash generated from operating activities	4,687,936
Investing activities:	
Net cash used in investing activities (including placement and redemption of short-term and long-term bank deposits)	(2,449,105)
Financing activities:	
Net cash used in financing activities	(4,216,951)
Add: Exchange gains on cash and cash equivalents	39,785
Net decrease in cash and cash equivalents	(1,938,335)
Add: Net increase in short-term and long-term bank deposits	864,209
Net decrease in cash balance	(1,074,126)

Net cash from operating activities increased during the year; in addition, the Group's net cash used in financing activities increased significantly as a result of dividend payments and share repurchases. Under the comprehensive influence, cash balance decreased. The Company will continue to place extra emphasis on its cash flow management to ensure stable development of the Company in the long run.

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

For the year ended 31 December 2023, RMB2,828,015,000 of the net proceeds from the top-up placing had been used. As at 31 December 2023, RMB3,595,564,000 were unutilised. The unutilised net proceeds from the top-up placing of shares are intended to be used as follows:

Intended use of net proceeds	Percentage of total net proceeds (approximately)	Unutilised net proceeds as at 31 December 2022 (approximately RMB'000)	Amount used during the year ended 31 December 2023 (approximately RMB'000)	Unutilised net proceeds as at 31 December 2023 (approximately RMB'000)	Expected timeframe for utilising the unutilised net proceeds*
Investment in newly launched product categories as well as future business investments when opportunity arises, including international business expansion	40%	2,630,853	1,208,914	1,421,939	Before 31 December 2026
Investment in reengineered infrastructure and further improvement of the supply chain system	30%	2,137,381	640,158	1,497,223	Before 31 December 2026
Development of the brand and IT system	20%	994,411	586,611	407,800	Before 31 December 2024
General working capital	10%	660,934	392,332	268,602	Before 31 December 2024
Total	100%	6,423,579	2,828,015	3,595,564	Before 31 December 2026

* The net proceeds have been applied in the manner consistent with the use of proceeds as disclosed in the announcement of the Company dated 3 November 2021. The expected timeframe for utilising the unutilised net proceeds is subject to change based on the current and future development of market conditions and market opportunities made available to the Group.

As at 31 December 2023, the Group's banking facilities amounted to RMB6,223,950,000, without outstanding borrowings.

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

Foreign Exchange Risk

The Group's operations are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group's subsidiaries in South Korea, Hong Kong and Macau use South Korean Won, Hong Kong Dollars and Macau Pataca, respectively, as their functional currencies. The Group has a partial amount of cash and bank deposits denominated in Hong Kong Dollars, United States Dollars, Euros, South Korean Won, Pound Sterling and Macau Pataca. The Company pays dividends in Hong Kong Dollars, certain license fees, sponsorship fees and consultation fees in United States Dollars or Euros, and certain investments in Hong Kong Dollars, United States Dollars or Pound Sterling.

The Group did not hedge its foreign exchange exposure during the year. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have had financial impact on the Group.

Significant Investments

As at 31 December 2023, the Group did not hold any significant investments.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In order to satisfy the needs of the Group's commercialization layout, expand its international business by establishing a footing in Hong Kong and explore global business opportunities, a subsidiary of the Group (the "Purchaser") and a subsidiary of Henderson Land Development Company Limited (the "Vendor") entered into a sale and purchase agreement (the "SPA") on 10 December 2023. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owner were independent third parties of the Company and its connected person(s). Pursuant to the SPA, the Purchaser conditionally agreed to (1) acquire the entire share capital of Vansittart Investment Limited (the "Target Company", a company incorporated in Hong Kong with limited liability) and (2) take up the assignment of the loan amount owing by the Target Company to one of its related parties as at the date of completion of the above acquisition (the "Acquisition"). The aggregate consideration for the Acquisition is HK\$2,208 million (equivalent to approximately RMB2,013 million) (which is subject to adjustment as agreed under the SPA). The Target Company is principally engaged in property investment and is the sole legal and beneficial owner of a property comprising 22 storeys of commercial/office space and two storeys of retail areas in Hong Kong, which is the principal asset of the Target Company. For details, please refer to the announcement of the Company dated 10 December 2023.

As of 31 December 2023, the total expenditure for the Acquisition did not exceed the percentage of 5% of the total assets of the Group.

The completion of the Acquisition took place on 28 January 2024. Upon completion, the Target Company has become an indirect wholly-owned subsidiary of the Company and the financial results of which are consolidated into the financial statements of the Group. Up to the date of this announcement, the consideration for the Acquisition has been fully paid. The Acquisition was funded by the Group's net proceeds from the top-up placing of shares and internal resources.

Future Plans for Significant Investments and Capital Assets

In order to establish a high-end intelligent manufacturing and flexible supply chain base and a high-level research and development (R&D) and experience center to meet the Group's future development needs, a subsidiary of the Group ("the Subsidiary") entered into an investment agreement and an updated investment agreement (collectively the "Investment Agreements") with a local governmental authority in Guangxi Zhuang Autonomous Region of the PRC on 8 November 2019 and 23 May 2023 respectively, pursuant to which the Subsidiary had agreed to acquire the land use right over a piece of industrial land through the listing-for-sale bidding process, and construct a supply chain base over the land for the production and packaging of high-end sports equipment (including but not limited to sports shoes, sports apparels and sports equipment) to expand its production capacity and output of differentiated sports products, as well as focusing on putting resources into R&D and experience to enhance the Group's technological R&D capability and to provide consumers with better product experience, sports experience and consumption experience. The maximum investment amount pursuant to the Investment Agreements was estimated to be approximately RMB3.3 billion, which refers to the total cost of completing the project and putting it into operation, including the cost of acquiring the land use right, the expenditure involved in the construction of the supply chain base, investment in purchasing machinery and equipment, and working capital. For details, please refer to the announcements of the Company dated 8 November 2019 and 23 May 2023, respectively.

As of 31 December 2023, the Subsidiary had successfully acquired the land use right over the relevant land and had been making investments on the construction of the supply chain base. The total expenditure above did not exceed 5% of the total assets of the Group as at 31 December 2023. The remaining investment amount will be funded by the Group's unutilised net proceeds from the top-up placing of shares and internal resources.

Pledge of Assets

As at 31 December 2023 and 31 December 2022, the Group had no pledged assets.

Contingent Liabilities

As at 31 December 2023, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In 2023, China's macroeconomy staged a moderate recovery. While residents' employment and income benefited from the positive impacts of the rebounding macroeconomy, the residents' consumption power and confidence were yet to be fully unleashed. As such, the sports consumer goods market in China continued to face challenges.

During the year, the Group continued to focus on the core strategy of "Single Brand, Multi-categories, Diversified Channels" with a focus on professional sports in the five core categories, namely basketball, running, fitness, badminton and sports casual. Through its efforts dedicated to brand reputation and product innovation, the Group has developed a comprehensive layout of functional products.

In terms of product research and development, the Group focused on building the competitive advantages of products from its core categories. Capitalizing on its continuous investment in research and development to promote product innovation, the Group strived to garner recognition among young consumers with its highly professional and fashionable quality sports products. For marketing strategy, the Group has been committed to investments in professional resources, while placing emphasis on upgrading its brand image with transformation geared to attracting more young consumers. By means of product crossovers and collaboration with the entertainment sector, the Group appealed to young consumers and strengthened its professional and youthful brand image.

In respect of operation, the Group optimized the channel structure and facilitated the upgrade of channel image and enhancement of channel efficiency, aiming to help successfully completing the transformation towards the new retail model. Meanwhile, the Group continued to improve the structure of the supply chain and the logistics system, and adopted proactive inventory management based on consumers' demand. In addition, in response to the development trend of companies worldwide, the Group also promoted the production of environmentally-friendly products in an effort to realise sustainable corporate development along the supply chain.

In terms of capital market, the Group became one of the first securities that can be traded in the dual counters model during the year, offering both HKD (Stock Code: 2331) and RMB (Stock Code: 82331) counter services, hence providing more investment flexibility and stock liquidity for the shareholders and potential investors.

Latest operational update for the fourth quarter of 2023

For the fourth quarter ended 31 December 2023, the retail sell-through of LI-NING point of sale ("POS") (excluding LI-NING YOUNG) for the overall platform increased by low-twenties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) recorded a high-twenties increase, with retail (direct operation) channel increased by low-fifties and wholesale (franchised distributors) channel increased by high-teens, while the e-commerce virtual stores business recorded a mid-single-digit increase.

As at 31 December 2023, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,240, representing a net decrease of 54 POS since the end of the previous quarter and a net decrease of 55 POS since the beginning of this year. Among the net decrease of 55 POS, retail accounts for a net increase of 68 POS, and wholesale accounts for a net decrease of 123 POS.

As at 31 December 2023, the total number of LI-NING YOUNG POS in China amounted to 1,428, representing a net increase of 58 POS since the end of the previous quarter and a net increase of 120 POS since the beginning of this year.

For the fourth quarter ended 31 December 2023, in respect of LI-NING POS (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter of last year, the same-store-sales for the overall platform recorded a low-teens increase on a year-on-year basis. In terms of channels, retail recorded a high-thirties increase and wholesale recorded a mid-single-digit increase, while the e-commerce virtual stores business recorded a mid-single-digit increase on a year-on-year basis.

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

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

In 2023, with a focus on the core categories of running, basketball, badminton, fitness and sports casual, the Group pressed ahead with innovation in sports technology and integrated Chinese fashion culture into its professional products to enhance its products’ trendiness. The Group also constantly improved product performance and enhanced the image of the LI-NING brand by means of technological innovation, so as to satisfy the growing consumer demand for sports products. In 2023, the five core categories recorded positive growth in retail sell-through across all channels with a total increase of 12%, including a 40% increase in running and a 25% increase in fitness, while basketball remained flat year-on-year.

Running

With high emphasis placed on the “one-million shoes” project, the running category created a well-established professional product matrix featuring the “Super Light” (超輕), “Rouge Rabbit” (赤兔) and “Feidian” (飛電) series with “LI-NING BOOM” (李寧轟), a high-performance midsole technology, as its core. The matrix covered different sports consumer groups and was able to meet varying demands from advanced to light sports. The accumulative annual sales volume of the three product series exceeded 9 million pairs, representing a year-on-year growth of 62%. Among them, the cumulative sales volume of “Feidian 3 Challenger” (飛電3 Challenger) exceeded 1.3 million pairs during the year, which became a phenomenal IP among the carbon plate running shoes. At the same time, the Group officially tapped into the professional cross-country running sector and launched cross-country products for professional runners in this regard. It created a new IP named “Dilu Series” (的盧家族) and continued to devote great efforts in the professional field. The brand new “Shadow 2” (絕影2代) and “Yueying 3” (越影3代) products targeting beginning runners, and running shoes with anti-shock protection function under the “Furious Rider Series” (烈駿家族) were launched by the Group in an effort to enhance the core professional proposition on a continuous basis, and offer more fashion option for running shoes on different occasions, thereby creating new business growth points.

Taking a scenario-focused approach for running apparels, the Group optimized the function matrix of the “COOLSHELL Cooling Technology” (COOLSHELL涼爽科技) series, “DYNAMIC SHELL Protection Technology” (DYNAMIC SHELL防護科技) series and the “AIRSHELL Air Movement Technology” (AIRSHELL氣動科技) series to satisfy the needs of runners by adopting different materials, blocks and functional technology based on their needs in two different scenarios, i.e. marathon race and daily running. As such, we have built up the professional reputation of LI-NING’s running apparels by improving product experience.

Basketball

Despite keen competition in the industry, we continued to develop our basketball products by leveraging technology platforms to upgrade the professional features of products while integrating brand resources with our products to create storyline-based professional basketball products. During the year, the China tour of celebrity basketball players has provided a boost to the professional basketball business. The top-notch signature shoe “Jimmy Butler 2” was iteratively upgraded. The newly launched “Sonic 11” (音速11) was fully optimized in terms of product performance with an upgraded midsole configuration from “LI-NING BOOM” (李寧轟) with half-foot support to “LI-NING BOOM” (李寧轟) with full-foot support, which can better cater to the needs for mobility during basketball games. In addition, color options such as “Ocean Blue” (凌波) and “Galaxy” (星辰) were well-received by the market. The “All City 11” (全城11) was launched with a themed story pack revolving around the classic “Dawn” color of the WADE series. This product also integrated the “LI-NING BOOM” (李寧轟) technology with full-foot support and lightweight and high resilience features with TPU materials, which were complimented with the use of strong mesh fabric on the shoe face to further boost its game performance.

Against the backdrop of intense competition for technology in the basketball industry, LI-NING basketball launched the new GCU ground control system technology platform, and new products under the “Speed” (閃擊), “Sonic ULTRA” (音速ULTRA), “Yushuai ULTRA” (馭帥ULTRA) and other series were released. In particular, “Yushuai ULTRA” (馭帥ULTRA) achieved significant progress in enhancing the sports performance of basketball players. The product was not only able to offer a remarkably stronger bouncing force, but also accelerated the average speed of consecutive instant vertical jump by 12% and increased the average height of running vertical jump by 4.1%. Furthermore, the launch of Carbon Core Technology Platform by the Group aimed to lay a solid foundation for the sustainable development of LI-NING basketball through the integrated moulding technique and continuous innovation of technology.

Characterized by its Western-inspired style, the WADE series remained committed to its trendy and avant-garde designs with a view to further reinforcing the positioning of “Professional Technology, High Street Basketball, Delicate Fashion” of products under the series and to creating the international brand image featuring youth and basketball culture. Through the collaboration with artists and continuous exposure with NBA and CBA sports stars, arts and sports stars culture were integrated into our product story to demonstrate the integration of technology, craftsmanship and arts, thereby bringing the experience of basketball technology and culture shock in the post-Wade era to our consumers. During the year, the product line of “WADE Basketball” focused its efforts on the promotion of “Way of Wade” (韋德之道) series and “All City” (全城) series. As such, we achieved a high sell-out rate of 88% for the “Way of Wade” (韋德之道) series and a sales volume of over 1 million pairs for the “All City” (全城) series, both are testaments to the reputation of the product series for its on-court performance.

On the basis of its street basketball features, the “BADFIVE” series continued to optimize the professional functions of its products and created overall matching outfit combinations with shoes and apparel for different occasions during basketball games based on the themed story packs, which attained high popularity among young consumers. During the year, the “BADFIVE” series successfully completed the upgrade of its street basketball features and professional attributes of its products, which has reinforced its differentiated brand positioning in the market. In 2023, “BADFIVE” collaborated with Mister Cartoon, a graffiti artist, to explore city culture and the ethos of basketball and launched product series such as the PASSION, FAMILY, LOYALTY and GLORY with a goal to build up the community spirit. During the same year, we launched the project of “Synergy of Seven Cities” (七城聯動) under the city series. The project integrated regional culture with street aesthetics to provide consumers products with both street style and traditional Chinese cultural elements. The release of the BRONSON TEAM series showcased the collision between the Los Angeles Street Basketball Team of the United States and the Chinese street basketball culture, which jointly conveyed the basketball philosophy of “LIVE WITH HOOPS” that foster a deep resonance with the young street basketball communities.

Badminton

We further improved the product matrix of the LI-NING's badminton product lines during the year. In particular, two new badminton rackets, namely "Thunderstorm 100" (雷霆100) and "Halberd 9000" (戰戟9000), were launched. The addition of these new products not only enriched the "Thunderstorm" (雷霆), "Shadow" (鋒影) and "Halberd" (戰戟) series, but also significantly increased the market competitiveness of LI-NING's badminton rackets. Among which, having made a breakthrough in shaft technology, "Thunderstorm 100" (雷霆100) outperformed other mainstream products at the time and broke the current industry record of the slimmest shaft at 6.0 mm, which further demonstrated the technological capability and reserve of LI-NING's rackets.

Moreover, given its high quality and innovative designs, the badminton jersey series of LI-NING is always popular among the national team, international top-notch sports stars and consumers. This year, the Group launched its first badminton jersey adopting environmental technology, and carried out comprehensive promotion campaigns with strenuous marketing efforts in different tournaments, online and offline channels as well as collaboration with KOLs.

We also achieved significant progress in respect of LI-NING's badminton shoes products. While the "Blade PRO" (刀鋒PRO) series made extensive use of the low extension microfiber for the uppers to improve the professional performance of the badminton shoes, the "Thunderstorm PRO" (雷霆PRO) high-end series adopted the "KPU Injection" (KPU射出) materials extensively, which optimized the balance between stability and breathability to satisfy the needs of different customer groups. The "Mirage PRO" (影速PRO) series, being the lightest badminton shoes of LI-NING to date, adopted transparent ETPU yarns and fabrics featuring "BOOM FIBER" (響絲) technology to perfectly integrate breathability with better wrapping and support. The "HERO 2" (貼地飛行2) series enabled LI-NING to promote the features of its badminton shoes products to professional consumers. The distinctive design and color options that set it apart from conventional products in the industry allowed LI-NING to offer more personalized options to its consumers. During the year, the four major series of professional badminton shoes debuted successfully, under which we provided four color options based on the theme of "Wind, Forest, Fire and Mountain" (風林火山). The four thematic elements corresponded to four different categories of product function, namely rapid start, comprehensive balance, innovation of research and development, and stability and protection, respectively. The series has, on the one hand, enhanced consumers' recognition of professional niche sectors, and on the other hand, further highlighted the unique brand attributes of LI-NING's badminton shoes products in the market.

Fitness

Functions and technologies have always been the core of the fitness category with improving the sports performance and maintaining the best physical condition of sports enthusiasts as the purpose of its products. During the year, the Group continued to upgrade the "AIRSHELL Air Movement Technology" (AIRSHELL氣動科技) and "DYNAMIC SHELL Protective Technology" (DYNAMIC SHELL防護科技) in a bid to fulfill the clothing needs of different customer groups on different occasions by leveraging the core products of sports outfits with various functions.

Building on the comprehensive upgrades of new technologies and fabrics on the LI-NING AT technology platform, we launched the new "COOL SHELL Cooling Technology" (COOL SHELL涼爽科技), which adopted LI-NING's exclusive 3D cross yarns technique that improved the quick-dry performance tremendously and reached the industry-leading level with significantly better functions than the national standards.

In order to better cater to the women fitness market, the Group conducted in-depth research on fitness products designed specifically for women, and at the same time, enhanced the proportion of these products as the sports outfit in various scenarios, thereby developing a professional, multi-scenario and stylish women's fitness product matrix. In response to the seasonal demands for materials, the Group launched the women yoga apparel IP, "SoftTouch" (柔感) series, with a view to increasing the proportion of women fitness business.

Sports casual

For the sports casual brand, we continued to explore the deep connection between the Chinese culture and sports leveraging our profound understanding of the daily needs of consumers. We provided consumers with distinctive and fashionable sports products by creating IP stories and original designs with the brand DNA and cultural connotation.

In terms of Chinese style, the “Rich Everyday” (日進斗金) series and “Chinese Colors” (中國色) series represented the modern interpretation of traditional culture that integrated both traditional elements and modern designs, which has not only created a sense of novelty for consumers visually, but also innovated in terms of the significance of products and the convenience of outfit. The “Rich Everyday” (日進斗金) series creatively combined the Chinese zodiac signs with auspicious elements from the traditional Chinese culture during the Chinese New Year to convey the best wishes for good fortune and create brand-new outfit ideas. Taking the colors in traditional culture and art as inspiration, the “Chinese Colors” (中國色) series showcased the beauty of colors in Asian culture, and injected vitality and comfort into daily looks to create a fashion vibe for multiple indoor and outdoor settings, which has become a new driving force for business growth of the Group.

Focusing on the daily walking and commuting scenarios of the general public and capitalizing on the industry-leading research and development capabilities of the brand and its supply chain system, we launched the “SOFT” series featuring comfortability, softness and elasticity for sports casual footwear, which brought the best soft, elastic and comfortable experience with the application of “COMFOAM” technology for its self-developed and improved EVA midsole. In particular, leveraging its comfortable experience, stylish design and extremely cost-effective price advantage, the annual sales volume of the star product “SOFT GO” exceeded 150 million pairs, which has become the core growth momentum of the sports casual category in the next two to three years. An exclusive series targeting female consumers of all ages with unique features of heightened, lightweight and elegant design was launched to serve female consumers more accurately, which will create huge business potential in the future.

“China LI-NING” has launched various crossover products and created distinctive product series in collaboration with celebrities, artists or other brands. Inspired by the metaverse and digital trend, the newly launched footwear “Titan FLOW” (盤古FLOW) under the “Titan” (盤古) series represented an innovative exploration in design of “China LI-NING”. Meanwhile, keeping abreast of millennial fashion trends, we launched trendy footwear IPs, such as “Yunyou SLAY” (雲遊SLAY) and “Furious Rider BOW” (烈駿BOW), which perfectly blended the brand DNA and modern aesthetics. In addition, the brand has joined hands with Los Angeles streetwear brand “PLEASURES” and launched a skateboarding series themed “PRO PLEASURES” (無樂不作). This series not only thoroughly explored the spirit and essence of street fashion, but also broke through the limitations of traditional styling, injecting new source of growth to the street culture product line of “China LI-NING”.

During the year, “LI-NING 1990” launched a brand-new golf product line, marking a significant milestone in building a mindset of high-end and fashionable sports. Based on the strong professional attributes of sports products, the golf product line incorporated the brand’s unique fashion style to further optimize the existing product matrix. On the premise of catering to the needs of business occasions, sports styles and functions were integrated into the commuting series to satisfy the clothing needs on various occasions such as working, commuting and travelling, hence creating an elegant sportsmanship and a relaxed and comfortable dressing style for multiple scenarios with simple design, functional fabrics and fine tailoring.

Develop professional functional products to meet diversified needs and accomplish comprehensive upgrade of product lines

The Group has long been committed to investing in research, development and innovation with strong focus placed on the iteration and upgrade of footwear technology. Having made a breakthrough of the conventional midsole design, LI-NING's Carbon Core Drive System introduced the innovative "Full Boom" (全掌震) technology and integrated moulding technique with a balanced plate. This improvement not only enhanced the efficiency of shock absorption and rebound, but also increased the propulsion force during sports activities, which significantly boosted the players' game performance. In addition, the abrasion resistance of the Group's upgraded GCU Ground Control System with full-foot support was effectively improved by 70%, and its slip resistance in dry and humid environments also improved by 8% and 30%, respectively, which allowed athletes to use their speed stop and go moves more easily during basketball games.

At the same time, the optimization of the "SAS Synchronised System" (SAS同步協調系統) and "Independent Future EVA System" (獨立未來EVA系統) has also been completed and applied to the basketball shoes product lines more extensively. The systems effectively enhanced the dynamic fit of the shoes during sports activities, which has strengthened the products' ability to cope with changing rhythms, and protect the arch of the foot by providing stable support, hence further enhancing the professional protection for athletes.

In addition, the Group has successfully launched the "Comfoam Plus" and "Comfoam Lite" formulas which are more elastic and lightweight, respectively and significantly reduces the overall weight of the shoes and improves the wearing comfortability. Meanwhile, the Group has developed professional products with moisture-absorbing and quick-dry capability, including the industry-leading yarn-knitted fabric with quick-dry capability. It was first applied to tops for running and training purposes, and has then been expanded to the full range of products, including sports tops, sports pants and sports towels, thereby forming an application matrix of the yarn technology platform.

Comprehensive layout for universal marketing to enhance communication with young consumers

During the year, the Group strengthened the universal marketing layout by focusing on the characteristics of the professional functions and sports casual category. Through the continuous cooperation with sports stars and professional events, the Group has reinforced the image of LI-NING's professional products among consumers and further scaled up its consumer groups. Moreover, LI-NING further diversified the marketing with entertainment modes for the sports casual category and constantly created opportunities for experiencing its products and brought up various promotional topics. A platform was also established for direct communication with consumers. Such measures have helped increase the influence of LI-NING brand and consolidate consumers' loyalty to the brand, and thus realized omni-channel and multi-dimensional exposure of its products.

In respect of the basketball sector, the brand launched marketing campaigns for the new game season based on core athlete assets and key basketball events resources. During the summer time, the Group organized its first post-pandemic tour in China featuring two contracted NBA stars, Jimmy Butler and Dwyane Wade, which fostered in-depth engagement with consumers through interactions at retail outlets, thereby realizing efficient consumer conversion. As the new CBA season began, the brand focused its efforts on promoting the CBA shoes and home jerseys to propel the development of LI-NING basketball's urban community culture. In addition, the Li Ning Company sponsored the Junior CBA National Challenge Competition, with a view to providing more platforms and support for teenagers in China to pursue their basketball dreams, facilitating the development of sports in school as well as youth basketball in China and contributing to discovering and cultivating Chinese basketball talents.

For the running sector, the Group systematically focused on its professional running shoes series in terms of product, promotion and retail, and highlighted its capability to comprehensively satisfy diversified needs of runners through omni-channel marketing. Thanks to its collaboration with Tmall and other essential platforms for traffic conversion, the endorsements by sports stars and word-of-mouth marketing through marathon races, the Group strengthened the recognition of the products under its professional running shoes series. It capitalized on the marathon races to demonstrate the professional features of its products and maximized the close connection with the runner community. In particular, the Group launched a new cross-country running shoes series with distinguished features of “Anti-Slip Champion” (止滑大磨王), and successfully garnered interests and positive responses for LI-NING’s new cross-country product line through media campaigns such as the “LI-NING Dilu Adventure Race” (李寧的盧越野挑戰賽). For running apparel, the Group put in place marketing initiatives that precisely addressed the current concerns of consumers regarding outdoor sports, and rolled out product concepts of “Ultra-light UV Defense” (超輕防曬) and “Ultra-strong UV Defense” (超強防曬) in response to the hot topics related to sun protection. These efforts were dedicated to further upgrading the product experience of consumers and accumulating the professional reputation of LI-NING’s running products.

As to badminton products, professional functions remained the focus of LI-NING badminton’s marketing, while “We match better with you” (羽你更合拍) continued to be the promotional theme of its online and offline promotion campaigns. The Group consolidated its sponsorship resources and integrated various activities, including new product launch as well as amateur IP events, while carrying out promotions on different media platform to enhance its brand reputation and develop various hot-selling products in support of the realization of the marketing goals. For its online marketing layout, the Group placed emphasis on the application of social media channels during the year, including organizing the “LI-NING · Chen Long Badminton Singles Open” (李寧諶龍羽毛球單打公開賽) which sparked off the topic of “No singles, No badminton” (無單打，不羽球). With omni-channel and multi-media promotions, this topic successfully garnered over 10.41 million and 13.40 million views on Weibo and Douyin (抖音), respectively. Besides, LI-NING badminton was committed to offering a diversified platform for product experience, sports experience and competition services. For instance, the Group set up interactive badminton games at the competition venues, rendered LI-NING badminton sports equipment experience and arranged professional racket stringers to provide services. These measures helped to attract the participation of badminton enthusiasts, foster seamless connection between online and offline operation, and fully convey the sportsmanship of LI-NING badminton.

For women fitness, the LI-NING brand upheld the all-new brand philosophy of “Dare to be Me” (敢為自己) for women through close communication with consumers. On the back of the active promotion with our contracted artist and contracted athlete of the brand, LI-NING exhibited its support for women power to general consumers, which helped to rapidly build up its “confident, self-caring, beautiful and powerful” (自信自愛、美而有力) image for women fitness and develop a professional and fashionable Chinese women fitness brand in the same league as the world’s leading brands. The brand did not merely focus on disseminating content via short video platform, but also took the initiative to explore the development of offline communities. Currently, LI-NING established the “Possible” (可能) Women Space Community in 8 cities across China. Leveraging its long-standing cooperation with KOLs, professional trainers, major gym centers in urban areas and community organization, LI-NING made consistent efforts to build an offline community matrix for women fitness with a focus on yoga and dancing. Furthermore, the brand also collaborated with professional and vertically-related online fitness platform, through which it jointly created professional fitness programmes and challenges to not only provide fitness enthusiasts the opportunities to “check-in” their sports activities and experience our products online, but also form an online-offline interactive experience model.

For sports casual, LI-NING endeavored to pass on the “innovative ideas” and “sincerity” of its brand and developed the “Rich Everyday” (日進斗金) series as the signature story pack for Chinese New Year. Based on the core spirit of “Conjure New Interpretations, Grow Rich Everyday” (自有新意，日進斗金), LI-NING extended the concept with profound implications and inspired new insights on time and value. The brand endowed the concept of “Rich Everyday” (日進斗金) with a new interpretation that went beyond wealth accumulation. It casted a spotlight on the experiences, support, companionship, friendship, sense of achievement, self-recognition and other new values in life that can be gained through perseverance in daily life. During the year, promotional campaigns led by Xiao Zhan (肖戰), Elaine Zhong (鍾楚曦) and VaVa (毛衍七), the brand’s spokespersons, portrayed such themes, and hence marketing contents focusing on the “Rich Everyday” themed products received 710 million views across all platforms with remarkable growth in terms of both topic discussions and authentic output by users as compared with last year.

For marketing campaigns with entertainment, the Group continued to work with Xiao Zhan (肖戰), the global spokesperson of LI-NING brand’s fashionable sports products, to light passion with sports and release the energy of fashion. During the year, the Group expanded its entertainment marketing line-up again, and engaged TNT (Teens In Times) (時代少年團) to be the global spokesperson of LI-NING’s youth sports products. With their lively teenager image, TNT demonstrated versatile mix-and-match style and conveyed a young, positive, optimistic and healthy sports and fashion attitude. Under the theme of “TNT brings you the unlimited possibilities of youth” (時代少年創造青春無限可能) jointly proposed by the brand and TNT, this collaboration connected with Z-generation consumers that have a passion for sports and fashions, to feel the charm of sports and create unlimited possibilities for youth together.

Focus on expansion and optimization of channels to promote their efficiency and upgrade of image continuously

In 2023, the Group was committed to optimizing its channel structure and enhancing the channel efficiency by proactively closing low-efficiency stores, thereby improving the overall store structure. The Group continued to expand its business presence in premium shopping malls and outlets. During the year, the Group achieved a key breakthrough in premium outlets. It carefully planned the opening of stores throughout China to further rationalize the store layout and established communication and negotiation mechanisms with major commercial groups to optimize channel costs.

During the year, the Company continued to upgrade the visual image of its stores and successfully launched the latest 9th generation store image to provide a better product experience, shopping experience and sports experience for all consumers. As of 31 December 2023, the number of conventional stores, flagship stores, China LI-NING stores, LI-NING 1990 stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,668, representing an increase of 65 POS as compared to 31 December 2022. The number of distributors was 46 (including sales channels of China LI-NING stores), representing a net decrease of 6 as compared to 31 December 2022. The number of POS breakdown as of 31 December 2023 is as follows:

LI-NING Brand	31 December 2023	31 December 2022	Change
Franchised	4,742	4,865	(2.5%)
Directly-operated retail	1,498	1,430	4.8%
LI-NING YOUNG	1,428	1,308	9.2%
Total	7,668	7,603	0.9%

Number of LI-NING Brand POS by geographical location

Regions	31 December 2023			31 December 2022			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region (Note 1)	3,163	845	4,008	3,184	786	3,970	1.0%
Southern Region (Note 2)	3,077	583	3,660	3,111	522	3,633	0.7%
Total	6,240	1,428	7,668	6,295	1,308	7,603	0.9%

Notes:

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

Enhance operational efficiency of stores, strengthen execution capability and optimize management loop to foster sustainable development with improved efficiency and quality

In the past year, the Group continued to explore the store operation model and the digitalisation of logistics system in an effort to enhance the execution capability of the entire retail end and the quality and efficiency of logistics services.

Through continuous exploration and optimization of the single-store operation model, the Group has upgraded the single-store operation model to the stage 2.0, developing a system comprehensively optimized from planning to execution and from processes to results. The accomplishment of the systematic store sales planning business and the steady progress of the store manager-centered management mechanism laid a solid foundation for enhancing single-store performance and product management capabilities. The Group's standardization tools such as the "LI-NING Retail Operation Manual" have enhanced the efficiency of the application of retail operation standards and the ability to enforce the standards at the retail end through internal monitoring.

The Group established an additional retail operation and execution team to realize a management loop of "order giving by headquarters, information confirmation by retail end, business execution by stores and supervision by headquarters" and ensure the normalized management of business execution. Meanwhile, the development of the four core competencies in the new retail business enabled the Group to enhance interaction among communities and profitability driven by live streaming, improve the out-of-store shopping experience and upgrade the overall consumer experience through standardized content production processes and digital tools.

In respect of the digitalisation of logistics system, the Group promoted the layout of regional central warehouses and ensured transparency throughout the logistic information chain of products through logistics informatization. With the opening of the East China Smart Logistics Centres and continuously improved quality of the logistics network, the quality and timeliness of direct delivery of products to directly-operated stores and wholesale stores were enhanced significantly. The Group also refined the management of the logistics business and continued to increase the proportion of direct delivery at stores and the proportion of the use of same packaging box for the same product, further enhancing the quality of its logistics services.

The full launch of the logistics management platform realized the all-round coverage of the logistics business scenarios by the middle-end information platform, which streamlined the processes and enhanced the efficiency at retail front. In particular, the launch of the warehouse automation project boosted the efficiency of logistics operations significantly, providing better services to consumers in East China region and across the country.

In terms of supply chain management, the Group has further strengthened its flexible supply system, giving play to its technological advantages in products. Focusing on building a sustainable supply chain, the Group has shifted from “passive production” to “proactive production”, and created greater value through further development of the “value supply chain” by reducing wastage and enhancing efficiency. At the same time, the Group has established an equal and win-win relationship with the suppliers to jointly fulfil its environmental and social responsibilities, promoted the development of environmentally-friendly products, and continuously upgraded its product strengths through innovations to provide better consumer experience.

Further develop professional products and strengthen traffic conversion to establish an efficient business ecosystem of e-commerce

In 2023, despite the profound changes and severe challenges faced by the entire e-commerce industry, the e-commerce team of Li Ning Company remained focused on high-quality products, and strived to organize innovative and diversified marketing campaigns in combination with festival events on e-commerce platforms, ensuring a stable and orderly development of all business operations.

Adhering to its focus on functional products, the e-commerce of Li Ning Company continued to consolidate its market position in the professional basketball shoes category and proactively explored new growth drivers. With in-depth consumer insight and effective communication, the e-commerce of Li Ning Company accurately captured the diversified needs of consumers and adopted scenario-based marketing strategies to increase business volume. In promoting the “Hot Pot Down Jacket” (火鍋羽絨服) series, the team creatively chose the hot pot scenario as the theme to publicize the product functions on e-commerce platforms, and successfully gained a foothold in the down jacket market. In the Tmall Super Brand Day campaign, LI-NING coordinated with top athletes and celebrities and organized a series of interactive and experiential activities to demonstrate the professional and fashionable features of its products through practical living scenarios, thereby deepening consumers’ awareness of LI-NING brand.

In response to the traffic arising from various marketing campaigns, the e-commerce business of Li Ning Company guaranteed an immediate traffic conversion and accumulation of private traffic through convenient shopping experience and comprehensive customer group management. In terms of traffic enhancement, the “Infinite Possibilities Games” (無限可能運動會) fully capitalized on the advantages of fan communities as well as the entertainment and sports media and realized effective brand exposure. The campaign accumulated 3.11 billion views with 14.16 million comments reposted, representing a significant increase as compared to 2022. In terms of traffic conversion, the e-commerce of Li Ning Company achieved remarkable sales performance in a series of major shopping festivals such as Taobao Queen’s Day, Tmall Gathering Day and 618 Shopping Festival. In respect of traffic accumulation, the Company continued to promote membership recruitment and management and strengthened the accumulation of membership as an asset. The total number of members and the cross-channel transaction volume through incentivized diversion of online membership registration to offline transactions recorded a significant growth.

LI-NING YOUNG

In 2023, LI-NING YOUNG proactively consolidated its market positioning as a professional brand and enhanced customer confidence by strengthening brand image management and improving the brand image of benchmark stores. In terms of product development, LI-NING YOUNG continued to optimize its product lines and refine its product structure, particularly professional products for sports such as basketball, running and football. The Group continued to promote innovation in product technology, material, categorization and style, and focused on devoting greater efforts in research and development of footwear products. At the same time, based on the characteristics of the body shape of kids and their needs of sports, the Group has set tone for the block design and direction of research and development, thereby further developing products suitable for kids in combination with the existing technology resources.

In terms of channel strategy, LI-NING YOUNG insisted on benchmarking against quality projects to enhance brand recognition. The Group enhanced the efficiency of channel management by improving the structure of channels, customers and stores with reasonable allocation of clearance channels and full-price channels. In addition, the Group continued to increase the proportion of stores in the high-end market and improve the brand image of key stores, with a view to enhancing customer confidence. LI-NING YOUNG also actively promoted the large store model, expedited the development of high-efficiency stores with store efficiency enhancement as the priority, and perfected the digitalized system to strengthen its management capability of retail stores. Meanwhile, the Company proactively integrated resources from distributors and optimized the channel structure with a focus on directly-operated stores in a bid to further develop exclusive markets. The Group has completed the integration of market resources in Liaoning, Henan, Hefei, Hebei and Hunan regions, and expanded its quality customer base.

For marketing, LI-NING YOUNG consolidated its marketing resources, pushed forward the implementation of integrated marketing campaigns and actively explored omni-channel marketing and community operation. On 1 June, the Children's Day, the Group held the themed event "Kids Sports Day" (小小運動會) in 48 cities, which successfully boosted customer orders by 78% and sales per transaction by 33%. In addition, the "China Tour" (中國行) campaign featuring basketball stars, Butler and Wade, ignited the passion of the young generation for basketball and thus boosted sales. During the campaign period, the 330 participating stores saw a 95% increase in basketball orders and a 62% increase in orders over RMB1,000. LI-NING YOUNG also actively promoted the brand on social media and formed an omni-channel marketing matrix covering all major social platforms. In the second half of 2023, the brand gained over 60 million online exposure and registered an 80% leap in the number of followers on its video channel platform with a significant growth in interactions.

As of 31 December 2023, LI-NING YOUNG had a total of 1,428 stores. The Group will continue to intensely develop its kidswear business. Leveraging the LI-NING brand, the Group will enhance the marketing efforts of the kidswear brand, take a product-focused approach to upgrade core product technology and design, and advance the exploration of market demands and product categorization. Consistent efforts will be devoted to channel expansion, retail operations and supply chain resources, so as to develop LI-NING YOUNG into a leading professional sportswear brand for kids in China.

HUMAN RESOURCES

Based on the Company's strategies, the human resources department pushed forward organizational reform, talent development, upgrade of performance system and promotion of the core values of corporate culture in an orderly manner, while staying committed to the principle of building teams of hand-picked elites to establish a highly efficient organization.

Regarding organizational development, in an effort to enhance the operational efficiency and competitiveness of the organization, the Group continued to optimize the management strategies for its organizational structure. It improved and adjusted its organizational structure, functional setting and staffing allocation to gradually build a coordinated, efficient and synergistic operational management organization. Meanwhile, the Group further resumed the integration and synchronization of various functions, including merchandising, product development, marketing and operation, based on its product and operational responsibilities, which are conducive to accomplishing the Company's mid-to-long term strategic goals.

In terms of talent management, the Group optimized its talent structure on a continuous basis and stepped up its efforts in talent cultivation and development. For the establishment of development mechanism, the Group continued to enhance its talent standards and refine its evaluation and development mechanism in an endeavor to support the growth of talents. In respect of the cultivation of key personnel, the Group continuously improved its talent cultivation system, bolstered the capabilities of its core management team and provided robust talent support for the high-quality development of its business through projects of fostering young talents and empowering personnel in key positions with professional skills.

In terms of performance incentive management, the Group made consistent efforts to propel the reform of its performance appraisal system and reinforce the management of performance targets of the organization and employees, thereby establishing a result-oriented and high-performance culture that upholds strategic collaboration, fairness and integrity. In the meantime, it strengthened the evaluation of organizational capacity and efficiency, further promoted the philosophy of value distribution, and designed targeted and differentiated short-, mid- and long-term incentive projects. While relentlessly boosting its market competitiveness, the Group also facilitated better management and control over its labor expenses.

Regarding culture and employee care, through organizing seminars on core values for the management, offering training and certification to all employees, and applying and putting the core values into practice in business scenarios, the Group devoted continuous efforts in building a cultural atmosphere to motivate full engagement by all employees and promoted the implementation of the core values of its corporate culture. At the same time, it has set up an honorary incentive system with detailed awards to fully demonstrate the power of role models and promote the learning and putting into practice of values by all employees. In addition, the Company actively cooperated with the labor union to organize activities such as employees' health seminars, tree planting activities, movie-viewing events, club competition and festival campaigns in a bid to enrich employees' life. Furthermore, activities on bringing love and warmth were carried out regularly to provide assistance and support to staff members in difficulty, so as to enhance their sense of belonging.

As at 31 December 2023, the Group had 4,845 employees (31 December 2022: 4,610 employees), among which 4,662 employees were at the Group's headquarters, Guangxi Supply Base and retail subsidiaries (31 December 2022: 4,422 employees), and 183 employees were at other subsidiaries (31 December 2022: 188 employees).

OUTLOOK

With the onset of 2024, the global economy is still in the process of recovery, and China's macroeconomic recovery also remains its signs of buoyancy. It is expected that China's economy will maintain its recovery momentum, further expand the domestic demand and steadily boost consumption so as to maintain the long-term positive development trend. The Group will continue to pursue the "Single Brand, Multi-categories, Diversified Channels" model, focus on the seven major segments under business transformation, and push forward the implementation of key strategic tasks in an orderly manner, and accelerate the pace of reforms in order to further promote the growth and profitability of the LI-NING brand.

1. **Implement a dual-driven strategy of merchandise and products.** The Group will continue to improve its product portfolio and optimize the types of products and price matrix. Meanwhile, the Group will also continue to explore new sports scenarios, develop the market segments of sports product category, and incorporate fashion elements into its professional products to better showcase the sports fashion culture and provide consumers with diversified consumer experiences, thereby expanding the influence of the brand;
2. **Enhance investment in research and development and promote innovation-driven development.** The Group will continue its efforts in the research and development for improvement of product functions and technological innovation, so as to provide consumers with more professional and functional sports products integrated with fashionable elements, which will better showcase the sports fashion culture. Meanwhile, the Group will continue to optimize the professional product matrix and increase the proportion of professional products by upgrading the fabrics and enhancing the technological attributes of products;
3. **Accelerate the establishment of the general e-commerce business system.** The Group will strengthen cooperation with mainstream e-commerce platforms to expand online sales channels and increase brand exposure and sales. It will also further enhance the user experience and functions of e-commerce platforms, optimize the shopping process and increase the conversion rate. In addition, through precise marketing strategies, the Group is able to enhance user stickiness and loyalty, resulting in a two-way transformation of the online and offline consumption scenarios;
4. **Optimize the efficient retail model.** The Group will continue to optimize its efficient channel layout to provide more excellent product experience, shopping experience and sports experience. In the future, the key objective of the Group is to accelerate the rectification of low-efficiency stores with the focus on enhancing store efficiency as our main goal. On the basis of refined operations, the Group will continue to improve the efficient retail model and develop the replicability and scalability of the model, so as to provide professional safeguard for the new business layout;
5. **Upgrade the supply chain system.** The Group will continue to strengthen the building of fundamental supply chain capabilities and improve its structure to enhance the flexibility and rapid response ability of the supply chain in order to flexibly adapt to the market changes. It also matches with high quality supply chain resources to ensure the safety, efficiency and stability of LI-NING's supply chain. New supply chain resources will be introduced according to the changes in demands to further optimize the supply chain matrix. The Group aims to accelerate the upgrade and reform of product development progress system by continuous reform and innovation, creating competitive advantages and deeply cooperating with strategic suppliers. It also facilitates the establishment of supply chain information system to achieve the digital transformation of both upper and lower streams of supply chains;

6. **Develop marketing consolidation and closed-loop consumer operation.** The Group will place emphasis on the investments in marketing resources and strive to upgrade our professional brand image as well as enhance consumers' awareness of LI-NING brand with an aim to establish the brand as their first-choice professional sports brand. The Group will actively promote community operations to attract marketing traffic, and accomplish the conversion of high-quality traffic into revenue, thereby fostering a completely closed-loop consumer operation. In 2024, the Group will make full use of its professional resources to conduct universal marketing oriented with competitions and events, organize online and offline community operations to strengthen consumer awareness. Meanwhile, it will actively develop long-term relationship with customers based on brand values;
7. **Carry out a comprehensive personnel system reform.** By optimizing the internal management processes and incentive mechanisms, the creativity and motivation of employees will be encouraged. The Group will build an efficient and professional team by nurturing and introducing high-calibre talents. Through these measures, the Group expects to enhance the overall organizational effectiveness and ensure that the Company will maintain its leading position under fierce market competition.

With the continuous support and encouragement of the national policies, the Group will continue to delve into China market, and contribute to the fulfilment of the noble national blueprint of building a “strong and healthy sports nation”. The Group will focus on its main business, and keep abreast of the ever-changing consumer market. Upholding the spirit of “Anything is Possible”, it will continue to launch sports products of higher quality for the society and public, and facilitate the Chinese sports industry to expand its global presence, so as to make contribution to the development of Chinese sports industry.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2023, the Company repurchased a total of 51,667,500 ordinary shares of the Company (“Repurchased Shares”) on The Stock Exchange of Hong Kong Limited for an aggregate consideration of approximately HK\$1.05 billion (excluding related transaction expenses). Out of which 10,730,000 Repurchased Shares were cancelled on 1 December 2023, and the remaining 40,937,500 Repurchased Shares were subsequently cancelled on 23 January 2024.

The Board believes that the share repurchases could reflect that the Board has full confidence in the business prospects and long-term growth of the Group.

Details of the ordinary shares repurchased by the Company during the year ended 31 December 2023 are as follows:

Month of repurchase in 2023	No. of ordinary shares repurchased	Repurchase price per share		Total consideration (excluding related transaction expenses) HK\$
		Highest price HK\$	Lowest price HK\$	
September	920,000	34.98	31.70	31,528,400.80
October	9,810,000	30.97	23.50	243,569,632.05
December	40,937,500	20.10	18.44	778,752,579.90
	<u>51,667,500</u>			<u>1,053,850,612.75</u>

Save as disclosed above and purchase of shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the year ended 31 December 2023.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2023, the Company has complied with the code provisions of the Corporate Governance Code (“CG Code”) contained in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), except for the following deviation with considered reason as explained below.

According to code provision C.2.1 of the CG Code, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. During the year of 2023, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (the “Joint CEO”), and Mr. Kosaka Takeshi, the Executive Director and the Joint CEO, jointly assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and the Joint CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group’s business strategies. The Board also believes that Mr. Li Ning and Mr. Kosaka Takeshi can complement with each other in performing the roles of the Joint CEOs, and create synergy effect which is in the interest of the Company and its shareholders as a whole.

Details of the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2023 annual report of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company, consisting of three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results of the Company for the year ended 31 December 2023.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11:00 am on Thursday, 13 June 2024.

The notice of the AGM will be despatched to the shareholders of the Company together with the 2023 annual report of the Company on or around 23 April 2024 and published on the website of the Company (<http://ir.lining.com>) and the “HKEXnews” website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

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

Hong Kong, 19 March 2024

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Kosaka Takeshi and Mr. Li Qilin. The independent non-executive directors of the Company are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Ms. Wang Yajuan.