Li Ning Company Limited
（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2331

Annual Report **2006**

Mission

Through sports, we inspire in people the desire and power to make breakthroughs

Vision

The world's leading brand in the sports goods industry

Core Values

Athleticism, Integrity, Professionalism, Passion, Breakthroughs, Trust

Corporate Profile

Li Ning Company Limited is one of the leading sports brand enterprises in the PRC. It has its own branding, research and development, design, manufacturing, distribution and retail capabilities. The Group's products include sports footwear, apparel and accessories for sport and leisure use which are primarily sold under its own LI-NING brand. The Group has established an extensive distribution and retail network in the PRC, under which distributors manage the franchised LI-NING retail outlets in congruence with the Group's marketing direction. The Group also directly manages its own LI-NING retail outlets and concessions. In addition, the Group has established a joint venture with AIGLE in 2005 under which the joint venture has been given the exclusive right by AIGLE to manufacture, market, distribute and sell for 50 years in the PRC, outdoor sports products which bear the AIGLE trademarks registered and owned by AIGLE.

This annual report is printed on environmentally friendly, totally chlorine-free paper.

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Contents

Highlights of the Year

16 Mar

- Forged collaboration with ATP

10 Jan

- Signed an agreement with NBA player, Damon Jones

24 Apr

- Became the title sponsor of the brand new China University Football League

28 Apr

- Named "2005 The Most Respectable Enterprise in China"

24 May

- Awarded the "The Most Creative Organisation" at The First Grand Ceremony of Creative China

14 Aug

- Collaborated with NBA player, Shaquille O'Neal, to develop jointly in China basketball market

Aug

- Incorporated into Harvard Business School case study database for successful marketing and operation in China sports goods market

5 Sep

- Launched the first technology platform with proprietary IP rights, the "LI-NING BOW" （李寧弓） anti-shock technology

12 Sep

- Signed an agreement with the first national track & field team, Sudan National Team, to pave way for promotion at the 2008 Beijing Olympic Games

17 Sep

- "Flying Armor" (飛甲) basketball footwear won the German "iF China 2006 Industrial Design Award"

15 Oct

- Signed an agreement with Ethiopian marathon athlete, Ambesse Tolossa

10 Dec

- Signed an agreement with NBA player, Chuck Hayes

28 Dec

- Established strategic collaboration with CCTV National Sports TV Channel

2006 to 2007

11 Jan

- Collaborated with Argentina Basketball Association to be the official sponsor of the men's and women's Argentina National Basketball Teams

25 Jan

- Became the designated official partner to provide sportswear for the Swedish Olympic Delegation

28 Mar

- Honored "2006 CCTV The Best Employer"

15 Jan

- Honored the "Influencing China - Sports Apparel Grand Award" jointly hosted by Tencent, Wharton Business School, CCTV NewsList and The Economic Observer

29 Jan

- Honored "2006 The Best Enterprise's Public Image Award" jointly organised by the Enterprise Research Institute affiliated with the Development Research Center of the State Council, business. sohu.com, China Credit Research Center of Peking University and Guanghua media

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Ning (李寧)
(Chairman)
Mr. ZHANG Zhi Yong (張志勇)
(Chief Executive Officer)
Mr. TAN Wee Seng (陳偉成)
(Chief Financial Officer)

Non-executive Directors

Mr. LIM Meng Ann (林明安)
Mr. Stuart SCHONBERGER

Independent non-executive Directors

Mr. KOO Fook Sun, Louis (顧福身)
Ms. WANG Ya Fei, Jane (王亞非)
Mr. CHAN Chung Bun, Bunny (陳振彬)

EXECUTIVE COMMITTEE

Mr. ZHANG Zhi Yong (張志勇)
(Committee Chairman)
Mr. LI Ning (李寧)
Mr. TAN Wee Seng (陳偉成)
Mr. GUO Jian Xin (郭建新)
Mr. XU Wei Jun (徐偉軍)

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis (顧福身)
(Committee Chairman)
Mr. Stuart SCHONBERGER
Ms. WANG Ya Fei, Jane (王亞非)

REMUNERATION COMMITTEE

Ms. WANG Ya Fei, Jane (王亞非)
(Committee Chairman)
Mr. LIM Meng Ann (林明安)
Mr. KOO Fook Sun, Louis (顧福身)

NOMINATION COMMITTEE

Mr. LIM Meng Ann (林明安)
(Committee Chairman)
Mr. KOO Fook Sun, Louis (顧福身)
Ms. WANG Ya Fei, Jane (王亞非)

COMPANY SECRETARY

Mr. TAN Wee Seng (陳偉成), *ACMA*

AUTHORISED REPRESENTATIVES

Mr. LI Ning (李寧)
Mr. TAN Wee Seng (陳偉成)

QUALIFIED ACCOUNTANT

Mr. TAN Wee Seng (陳偉成), *ACMA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Beijing New World Center
3B Chong Wen Men Wai Street
Chong Wen District
Beijing, PRC
Telephone: +8610 6708 1108
Fax: +8610 6708 5140

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
Baker & McKenzie

PRC law
Grandall Legal Group Shanghai Office
Beijing Haisi Law Firm
Beijing Guorui Law Firm

PRINCIPAL BANKERS

Hong Kong
DBS Bank Ltd., Hong Kong Branch

PRC
China Construction Bank
Industrial & Commercial Bank of China
China Merchants Bank
Bank of Beijing

Five-year Financial Highlights

(All amounts in RMB thousands unless otherwise stated)

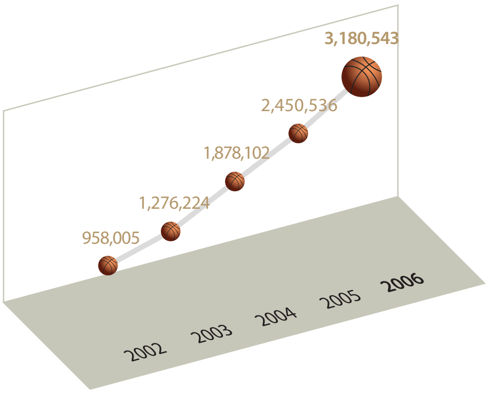
	Year ended 31 December				
	2006	2005 (Reclassified – Note 1)	2004	2003	2002
Turnover	**3,180,543**	2,450,536	1,878,102	1,276,224	958,005
Operating profit	**402,518**	271,497	180,418	119,109	103,347
Profit before income tax	**401,153**	273,451	181,239	114,563	95,955
Profit attributable to equity holders	**294,846**	186,800	122,414	93,960	66,889
Non-current assets	**276,476**	119,615	102,819	89,523	86,489
Current assets	**1,888,809**	1,463,196	1,378,612	678,255	484,144
Current liabilities	**688,452**	404,515	454,206	362,877	337,760
Net current assets	**1,200,357**	1,058,681	924,406	315,378	146,384
Total assets	**2,165,285**	1,582,811	1,481,431	767,778	570,633
Total assets less current liabilities	**1,476,833**	1,178,296	1,027,225	404,901	232,873
Equity holders' equity	**1,399,490**	1,160,924	1,010,017	389,032	215,578
Gross profit margin (%)	**47.4**	46.0	46.5	47.5	44.9
Margin of profit attributable to equity holders (%)	**9.3**	7.6	6.5	7.4	7.0
Earnings per share — basic (RMB cents)	**28.65**	18.25	13.78	12.53	8.92
— diluted (RMB cents)	**28.25**	18.13	13.75	N/A	N/A
Return on equity holders' equity (%)	**23.0**	17.2	17.5	31.1	36.7
Net tangible assets per share (RMB cents)	**127.00**	112.42	112.64	51.37	28.50
Debt to equity holders' equity ratio (Note 2)	**0.53**	0.35	0.45	0.93	1.57

Notes:

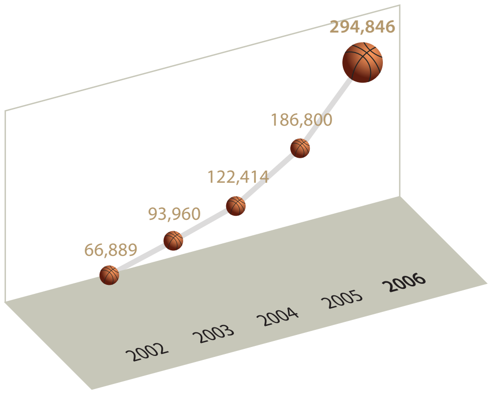
1. *See note 2.23 to the consolidated financial statements.*
2. *The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December.*

(All amounts in RMB thousands unless otherwise stated)

TURNOVER

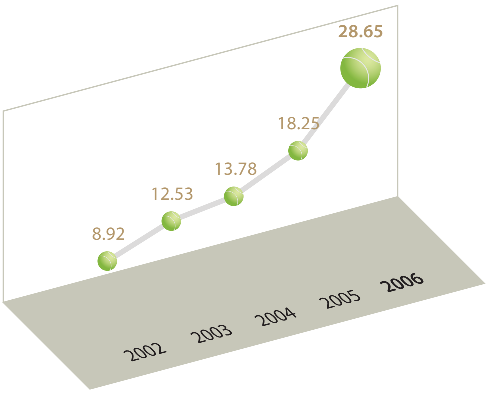


PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



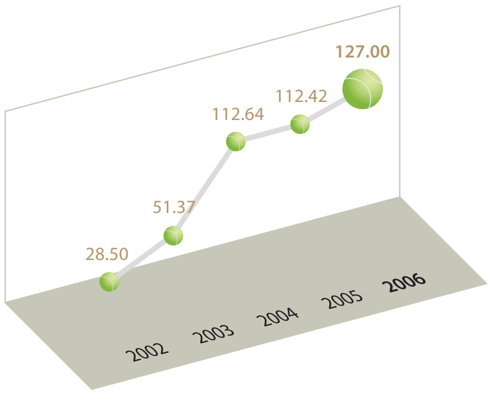
EARNINGS PER SHARE – BASIC

(RMB cents)

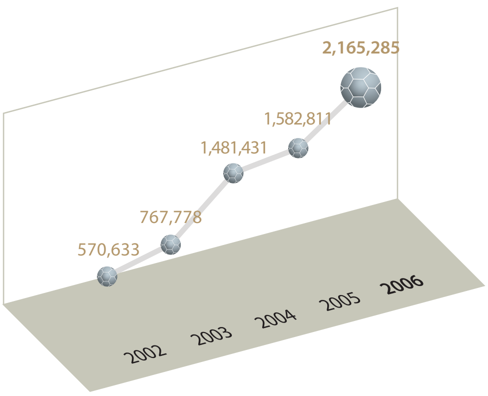


NET TANGIBLE ASSETS PER SHARE

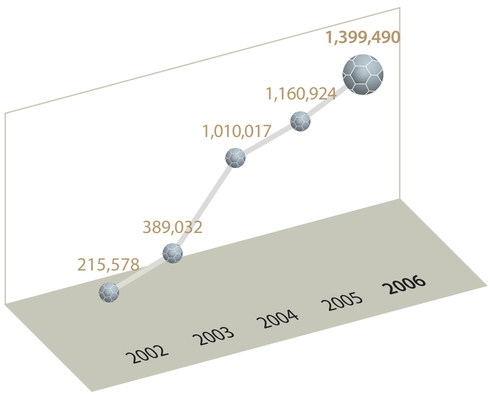
(RMB cents)



TOTAL ASSETS



EQUITY HOLDERS' EQUITY




Brilliant
Performance

Chairman's Statement

Mr. LI Ning,
Chairman

Dear Shareholders,

I am delighted to present the annual results of the Company together with its subsidiaries for the year ended 31 December 2006.

China's economy continued its rapid growth in 2006. Consumer enthusiasm for sports and the demand for sporting goods have increased steadily on urbanisation and as the 2008 Beijing Olympic Games approaches. These favourable market dynamics have created a supportive environment for the Group to drive its growth with unprecedented momentum.

In 2006, the Group made considerable progress in international brand expansion by emphasizing the professional quality of its products and enriching its product selection. Improved operational efficiency has also strengthened the Group's core competitive

IMPRESSIVE FINANCIAL PERFORMANCE

For the year ended 31 December 2006, the Group's turnover rose by 29.8% to RMB3,180.5 million (2005: RMB2,450.5 million). Profit attributable to equity holders grew by 57.8% to RMB294.8 million (2005: RMB186.8 million). Basic earnings per share improved by 57.0% to RMB28.65 cents (2005: RMB18.25 cents).

In view of the Group's strong financial performance, the Board has proposed a final dividend of RMB7.64 cents per Share (2005: RMB5.00 cents). Together with the interim dividend paid, total dividend per Share for 2006 amounted to RMB11.44 cents (2005: RMB7.30 cents), representing a payout of approximately 40% of profit attributable to equity holders of the year, which is consistent with the Group's historical payout ratio.

ACCELERATED BRAND BUILDING TO EMBRACE 2008 BEIJING OLYMPIC GAMES

The Group is committed to sharpening its competitive edge and to driving the international expansion for LI-NING brand in its pursuit of developing a world-leading sporting goods enterprise. The Group's market-leading position in the PRC, together with its highly efficient distribution network and extensive promotional resources, has helped it to secure successful strategic partnerships with a number of world-renowned organisations.

In 2006, the Group expanded its relationship with the NBA by entering into agreements with NBA players Shaquille O'Neal, Damon Jones and Chuck Hayes so as to have greater international exposure on the basketball court. These alliances have strengthened the association between LI-NING and the NBA, which began in 2005 when the Group became the NBA's official marketing partner for China. They have also created a positive impact on the China market and reinforced the Group's image as the leading domestic brand in the basketball sector.

In addition, the Group has forged a partnership with the Association of Tennis Professionals (ATP) to promote tennis in China.

The Group has further seized upon the 2008 Beijing Olympic Games to increase recognition of the Group internationally and raise LI-NING brand's professional image through the sponsorship of China's gold medal winning national teams and world-class sports teams. In 2006, it commenced sponsorship of the Sudan National Track & Field Team and the world championship Argentina National Basketball Teams. Recently, the men's Spanish Basketball Team, which is also sponsored by the Group, won the 2006 FIBA World Championship. We look forward to seeing our Group-sponsored China and international teams to step onto the medallist platforms in their LI-NING branded athletic apparel at the 2008 Beijing Olympic Games.

Solidifying our position and strengthening our competitive advantages as China's leading domestic sports brand is as important as building our international reputation. As part of the initiatives in achieving that goal, the Group has become the official sponsor of the Chinese University Basketball Association (CUBA) and the Chinese University Football League (CUFL). This has increased its influence among China's younger generation, a market which offers enormous potential.

REINFORCEMENT OF MULTI-BRAND STRATEGY

In addition to the core LI-NING brand, the Group has adopted a multi-brand strategy as a China's leading sporting goods enterprise. In 2005, the Group entered into a 50-year cooperation with AIGLE, a leading French outdoor wear brand. This new business alliance is proceeding smoothly and 36 AIGLE speciality stores have been opened in different cities in the PRC, including Beijing, Shanghai, Hangzhou and Shenzhen.

The Group has fostered collaboration with strategic partners to introduce co-branded products. In 2006, the Group launched its cooperation with NBA player Shaquille O'Neal to create the co-branded "LI-NING – SHAQ" professional basketball product line which uses Shaquille O'Neal's image, name, player number and autograph in a full range of products.

The Group's alliance with ATP is another success for the multi-brand strategy. The partnership encompasses manufacturing, distribution, brand name promotion, marketing and tournament exposure of co-branded tennis products to significantly enhance the professional image of LI-NING brand in the tennis market.

CONTINUAL ENHANCEMENT OF PRODUCT R&D CAPABILITIES

The Group operates its own R&D centre in China and cooperates with prestigious universities and professional institutions. Our talented product designers come from different countries and regions, including mainland China, Hong Kong, Taiwan, Norway, England, Italy and the United States. They work closely with a team of experienced researchers to ensure that LI-NING branded products can meet the highest professional standards in terms of design and quality.

The Group's R&D strategy is to pursue a unique blend of style, ergonomics and professional quality in its products, which are on par with international standards. The Group made a first-of-its-kind breakthrough in China by developing and launching a proprietary "LI-NING BOW" (李寧弓) footwear technology in 2006. Another example of the Group's world-class product design ability is the LI-NING "Flying Armor" (飛甲) line of basketball footwear products, which was awarded the "iF China 2006 Industrial Design Award", a highly coveted award granted by the German design industry.

Going forward, the Group will continue to uphold the spirit of its corporate motto "*Anything is Possible*" by applying the Asian oriental culture on its path to international expansion.

THE FUTURE FOR LI-NING

With the approaching of the 2008 Beijing Olympic Games, competition with, and among, international sports brands will become increasingly intense, particularly in metropolitan cities such as Beijing and Shanghai. As the leading sports goods enterprise in China, we will seize every opportunity to strengthen our market position. In relatively more mature markets, the Group will reinforce its advantage by enhancing the operating efficiency of its retail network to achieve higher productivity. After several years of rapid expansion, the Group's sales network comprised a total of 4,333 stores as of 31 December 2006. The Group's sales network now spans across the entire nation and dominates the second and third-tier cities.

To tap opportunities in the second and third-tier cities where rising consumer spending is phenomenal, the Group will expand its retail network and leverage its strong brand awareness to seize opportunities in these lucrative market segments. In pursuing its multi-brand strategy, the Group will actively explore cooperation opportunities with international brands so as to enrich its brand portfolio and broaden its base of earnings.

The Group has always committed itself to the maintaining of a high level of corporate governance. We will continue to promote transparency while strengthening internal management and fulfilling our commitment to maximise shareholder value.

I would like to take this opportunity to express my sincere gratitude to our Board members and management team, and to all the employees, business partners, customers and shareholders of the Group, for their support and contributions to the Group. Just as in the world of competitive sports, the Group's achievements and success are the results of the entire team's effort. In 2007, as the world's best athletes prepare for the 2008 Beijing Olympics, the Group's employees will also be competing against time, utilizing every minute to prepare for this once-in-a-lifetime event. We will seize this historic opportunity to reach new heights and continue to increase returns for our shareholders.

LI Ning
Chairman

Hong Kong, 20 March 2007

Scale new heights

Management Discussion and Analysis

Mr. ZHANG Zhi Yong,
Chief Executive Officer

OVERVIEW

The Group's business objectives in 2006 were to sharpen the competitive edge of its core business to ensure strong sustainable growth and to propel new business development, thereby achieving steady profit growth and continual value creation so as to maximize shareholder values.

Strong economic growth and rising consumption power in the PRC, coupled with the imminent 2008 Beijing Olympic Games, have created a favourable macro operating environment for the Group. Riding on its strong brand and marketing capabilities, unmatched product research and development talents, extensive distribution channel and enhancement in supply chain management, the Group has achieved another year of distinguished results in 2006.

RESULTS REVIEW

Key Financial Indicators

Key financial indicators of the Group for the year ended 31 December 2006 are summarised as follows:

	Year ended 31 December		Change
	2006	2005 (Reclassified– Note 7)	**(%)**
Items of income statement (audited)			
(All amounts in RMB thousands unless otherwise stated)			
Turnover	**3,180,543**	2,450,536	29.8
Gross profit	**1,508,552**	1,126,189	34.0
Operating profit	**402,518**	271,497	48.3
EBITDA (Note 1)	**438,407**	296,435	47.9
Profit attributable to equity holders	**294,846**	186,800	57.8
Basic earnings per share (RMB cents) (Note 2)	**28.65**	18.25	57.0
Selected financial ratios (audited)			
Gross profit margin (%)	**47.4**	46.0	
Operating profit margin (%)	**12.7**	11.1	
Margin of profit attributable to equity holders (%)	**9.3**	7.6	
Effective tax rate (%)	**26.4**	31.1	
Return on equity holders' equity (%)	**23.0**	17.2	
Debt to equity holders' equity ratio (Note 3)	**0.53**	0.35	
Average inventory turnover (days) (Note 4)	**70**	84	
Average accounts receivable turnover (days) (Note 5)	**55**	44	
Average trade payables turnover (days) (Note 6)	**67**	68	

Notes:

1. *EBITDA refers to earnings before interest, tax, depreciation and amortisation.*
2. *The calculation of basic earnings per share is based on the profit attributable to equity holders for the year ended 31 December 2006 of RMB294,846,000 (2005: RMB186,800,000) and the weighted average of 1,029,030,000 ordinary shares in issue during the year less shares held for the Restricted Share Award Scheme (2005: 1,023,827,000 shares).*
3. *The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December.*
4. *The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by the cost of sales and multiplied by 365 days.*
5. *The calculation of average accounts receivable turnover (days) is based on the average of opening and closing balances of accounts and notes receivable divided by turnover and multiplied by 365 days.*
6. *The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by 365 days.*
7. *See note 2.23 to the consolidated financial statements.*

NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2006)

Franchised LI-NING retail outlets	3,860
Directly-managed LI-NING retail stores	138
Directly-managed LI-NING concession counters	299
Total	**4,297**

Turnover

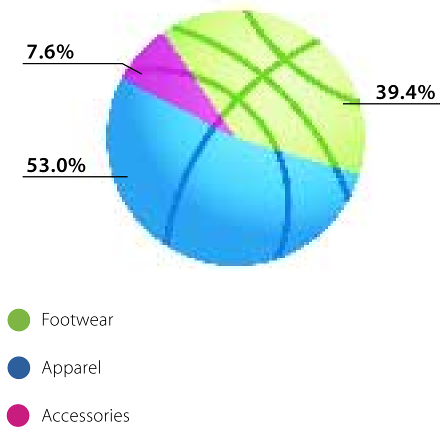
For the year ended 31 December 2006, the Group's turnover reached RMB3,180,543,000, an increase of 29.8% as compared to 2005. Turnover of LI-NING branded products surged by 35.7% to RMB3,168,045,000 as compared to 2005. The growth was attributable to (i) distinguished brand differentiation and marketing capabilities; (ii) continual expansion of sales channels and network coverage; (iii) successful launch of new product series; and (iv) constant enhancement in supply chain management.

Breakdown of turnover by brand and product category

	Year ended 31 December				
	2006		2005		
	RMB'000	**% of total turnover**	RMB'000	% of total turnover	**Change (%)**
LI-NING brand					
Footwear	**1,250,956**	**39.3**	843,325	34.4	48.3
Apparel	**1,673,924**	**52.7**	1,280,634	52.3	30.7
Accessories	**243,165**	**7.6**	210,821	8.6	15.3
Total	**3,168,045**	**99.6**	2,334,780	95.3	35.7
Other brands*					
Footwear	**1,663**	**0.1**	23,372	1.0	-92.9
Apparel	**10,730**	**0.3**	85,168	3.4	-87.4
Accessories	**105**	**0.0**	7,216	0.3	-98.5
Total	**12,498**	**0.4**	115,756	4.7	-89.2
Overall					
Footwear	**1,252,619**	**39.4**	866,697	35.4	44.5
Apparel	**1,684,654**	**53.0**	1,365,802	55.7	23.3
Accessories	**243,270**	**7.6**	218,037	8.9	11.6
Total	**3,180,543**	**100.0**	2,450,536	100.0	29.8

* *Other brands include the KAPPA and AIGLE brands. Corresponding figures for 2005 relate to the KAPPA brand (disposed of in August 2005), while those for 2006 relate to the AIGLE brand.*

Percentage of turnover by product category in 2006



Turnover of the Group was mainly generated by the Group's core brand, LI-NING, which accounted for 99.6% of the total turnover. The LI-NING branded products focus on five key sport activities, namely, running, basketball, soccer, tennis and fitness. It has a broad product portfolio which encompasses footwear, apparel and accessories for professional athletes and for leisure. During the year under review, footwear products recorded a robust sales growth of 48.3% as compared to 2005. This was attributable to the Group's committed efforts in defining a clear positioning with strong product differentiation and in injecting personality and innovation into its product design. The oriental and innovative elements of the "Flying Armor" (飛甲) series of basketball shoes and the "Flying Feather" (天羽) series of running shoes were well-accepted by the market. In addition, the Group's shoe products with its proprietary core technology "LI-NING BOW" (李寧弓) launched in the second half of 2006 has received overwhelming market response with the support of a comprehensive sales strategy. As for apparel products, despite keen competition from both overseas and domestic brands, an increase of 30.7% in sales was achieved. Sales of accessories also rose by 15.3% as a result of the product mix optimisation implemented during the year under review.

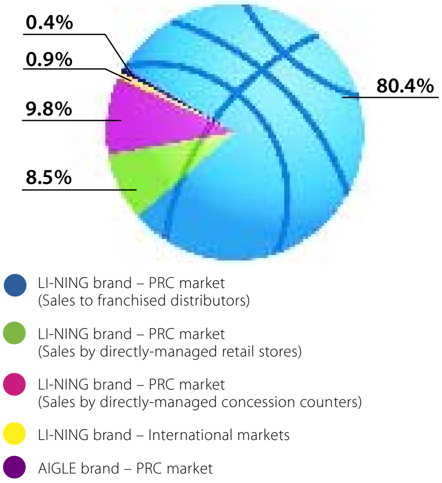
Outdoor leisure sports apparel and footwear products under the AIGLE brand operated by the joint venture established by the Group and AIGLE of France were launched in the first half of 2006. Sales of the AIGLE branded products in 2006 amounted to RMB12,498,000.

Percentage of turnover by sales channel

	Year ended 31 December 2006 % of total turnover	2005 % of total turnover
LI-NING brand		
PRC market		
Sales to franchised distributors	**80.4**	72.8
Sales by directly-managed retail stores	**8.5**	10.0
Sales by directly-managed concession counters	**9.8**	11.2
International markets	**0.9**	1.3
Other brands*		
PRC market	**0.4**	4.7
Total	**100.0**	100.0

* *Other brands include the KAPPA and AIGLE brands. Corresponding figures for 2005 relate to the KAPPA brand (disposed of in August 2005), while those for 2006 relate to the AIGLE brand.*

Percentage of turnover by sales channel in 2006



The Group's products are mainly sold through distributors. The Group also distributes LI-NING and AIGLE branded products through directly-managed retail stores and concession counters. In view of the development trend of the China sports product retail market and taking into consideration its core competency, the Group is disposing of certain retail stores of its sales subsidiaries to distributors with strong capability. The Group will therefore focus on the management of sales channels which facilitates brand building, e.g. flagship stores and factory outlets.

Breakdown of turnover by geographical location

		Year ended 31 December				
		2006		2005		
	Note	**RMB'000**	**% of total turnover**	RMB'000	% of total turnover	**Change (%)**
LI-NING brand						
PRC market						
Beijing and Shanghai		**238,387**	**7.5**	187,078	7.6	27.4
Central region	1	**395,959**	**12.4**	287,221	11.7	37.9
Eastern region	2	**701,378**	**22.1**	570,135	23.3	23.0
Southern region	3	**397,074**	**12.5**	313,583	12.8	26.6
Southwestern region	4	**320,812**	**10.1**	208,325	8.5	54.0
Northern region	5	**557,920**	**17.5**	384,851	15.7	45.0
Northeastern region	6	**451,955**	**14.2**	305,319	12.5	48.0
Northwestern region	7	**76,625**	**2.4**	45,455	1.9	68.6
International markets		**27,935**	**0.9**	31,844	1.3	-12.3
Other brands*						
PRC market		**12,498**	**0.4**	116,725	4.7	-89.3
Total		**3,180,543**	**100.0**	2,450,536	100.0	29.8

* *Other brands include the KAPPA and AIGLE brands. Corresponding figures for 2005 relate to the KAPPA brand (disposed of in August 2005), while those for 2006 relate to the AIGLE brand.*

Notes:

1. *Central region includes Hubei, Hunan and Jiangxi.*
2. *Eastern region includes Zhejiang, Jiangsu and Anhui.*
3. *Southern region includes Guangdong, Guangxi, Fujian and Hainan.*
4. *Southwestern region includes Sichuan, Chongqing, Guizhou, Yunnan and Tibet.*
5. *Northern region includes Shandong, Hebei, Henan, Tianjin, Shanxi and Inner Mongolia.*
6. *Northeastern region includes Liaoning, Jilin and Heilongjiang.*
7. *Northwestern region includes Shaanxi, Xinjiang, Gansu, Qinghai and Ningxia.*

The Group has established a nationwide network which covers all provinces and municipalities in the PRC. The second and third-tier cities where the Group has strong presence in are the mainstream market for future growth.

Cost of Sales and Gross Profit

For the year ended 31 December 2006, cost of sales of the Group amounted to RMB1,671,991,000 (2005: RMB1,324,347,000). Overall gross profit margin of the Group maintained at a healthy level of 47.4%, representing an increase of 1.4% from 46.0% in 2005. The margin expansion was attributable to the increased percentage of new products in the total sales mix and the enhancement in product design and development which allowed the Group to enjoy price premiums for its new products.

Gross profit margin of product categories

	Year ended 31 December	
	2006	2005
	(%)	(%)
Overall	**47.4**	46.0
Footwear	**47.1**	45.3
Apparel	**47.1**	46.2
Accessories	**50.9**	46.7

Other Income

For the year ended 31 December 2006, other income of the Group amounted to RMB29,561,000 (2005: RMB32,626,000), which mainly comprised government subsidies and gain on disposal of a subsidiary.

Distribution Costs and Administrative Expenses

For the year ended 31 December 2006, distribution costs of the Group amounted to RMB900,865,000 (2005: RMB683,150,000). This mainly comprised advertising and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores, transportation and logistics expenses, and sponsorship and other marketing-related expenses. Distribution costs accounted for 28.3% of the Group's total turnover, representing an increase of 0.4% against 27.9% in 2005. Such increase was mainly due to (i) increased investment amounts in sports sponsorship and business promotion; (ii) rise in human resources expenses for sales personnel; and (iii) increased investment amounts in shop renovation and channel support.

Administrative expenses of the Group for the year ended 31 December 2006 amounted to RMB234,730,000 (2005: RMB204,168,000). These mainly comprised staff costs, consulting expenses, office rentals, depreciation of office premises and other general expenses. Administrative expenses as a percentage of the Group's total turnover decreased from 8.3% in 2005 to 7.4% in 2006 as a result of the increased economies of scale which led to more efficient control on human resources and daily expenses, offsetting the increased provisions for inventories and bad debt.

Operating Profit
For the year ended 31 December 2006, operating profit of the Group was RMB402,518,000, representing an increase of 48.3% from RMB271,497,000 in 2005. Benefiting from the expanded gross margin and the more efficient expenditure management, the Group's operating profit margin for the year was approximately 12.7%, representing an increase of 1.6% as compared to 2005.

Finance Cost and Taxation
For the year ended 31 December 2006, finance cost of the Group amounted to RMB1,365,000 (2005: finance income of RMB1,954,000). Such increase in finance cost was mainly due to the exchange loss and increased cost of treasury management which was applied to minimize the risk of material foreign exchange fluctuation.

For the year ended 31 December 2006, taxation of the Group amounted to RMB106,090,000 (2005: RMB85,106,000). The effective tax rate was 26.4% (2005: 31.1%). Reduction in effective tax rate was the result of the continuous implementation of effective tax planning by the Group during the year under review.

Profit Attributable to Equity Holders
Profit attributable to equity holders for the year ended 31 December 2006 was RMB294,846,000, representing an increase of 57.8% from RMB186,800,000 in 2005. Net profit margin attributable to equity holders for the year was 9.3%, representing an increase of 1.7% from 7.6% in 2005.

Basic earnings per share amounted to RMB28.65 cents (2005: RMB18.25 cents).

Provision for Inventories
Inventories of the Group are stated at the lower of cost and net realizable value. In the event that net realizable value falls below cost, the difference is taken as a provision for inventories.

Accumulated provision for inventories as at 31 December 2006 amounted to RMB26,869,000 (31 December 2005: RMB14,227,000). In the light of business expansion, the proportion of provision for inventories was adjusted upward during the year according to the net realizable value, resulting in an increase in provision for inventories.

Provision for Doubtful Debts
The Group's policy in respect of provision for doubtful debts in 2006 remained the same as that in 2005.

Accumulated provision for doubtful debts as at 31 December 2006 amounted to RMB8,720,000 (31 December 2005: RMB3,716,000). Provision for doubtful debts increased as a result of business expansion and extension of credit period to customers.

BUSINESS REVIEW

During the year ended 31 December 2006, the Group continued to focus on its business development strategies, including (i) establishing brand differentiation and building integrated sales and marketing capabilities; (ii) strengthening product design, research and development capabilities; (iii) expanding sales channels and network; (iv) developing a market responsive supply chain; and (v) embarking on a multi-brand and new business expansion plan.

Brand Promotion and Sponsorships
As a leading sports brand enterprise in the PRC, the Group has emphasized on sports marketing. In 2006, the four national teams under the Group's long-term sponsorship, namely, the Gymnastics Team, Diving Team, Table Tennis Team and Shooting Team, achieved remarkable results in the Doha Asian Games. The Gymnastics Team has obtained 8 gold medals out of 14 in total in the World Championship held in Denmark and the Diving Team was the winner of all World Cup diving events. In addition, the men's Spanish Basketball Team in LI-NING branded apparel, achieved its best ever results and won the World Champion in 2006. It is the honour of the Group in being the apparel sponsor of these world-leading sports teams.

In 2006, the Group continued to deploy considerable sales and marketing resources for the promotion of its core products, including sports sponsorship, advertisements and online media promotion, setting out the qualities which differentiate the LI-NING brand from its competitors and uplifting the brand profile by emphasizing the professional and athletic nature of its products. Key events of the Group in this respect took place in 2006 are summarised below:

NBA – Official marketing partner in China

Being the official marketing partner of NBA in China, the Group entered into agreements with two world famous NBA players, Damon Jones of Cleveland Cavaliers and Chuck Hayes of Houston Rockets in January and December 2006, respectively. The two players have put on LI-NING professional basketball shoes in the NBA league games since then. This partnership attests to the professional qualities and international standards of LI-NING branded sports footwear and marks a great stride for LI-NING brand in achieving its goal of becoming a top world-class sports goods brand.

In August 2006, the Group entered into a five-year agreement with the renowned NBA player, Shaquille O'Neal, who plays as a center at Miami Heat. He was selected as one of the 50 Greatest NBA Players in the NBA history. During the year, the Group and Shaquille O' Neal jointly launched the "LI-NING – SHAQ" co-branded basketball product series, in which the professional endorsement of Shaquille O'Neal, including his image, name, jersey with his player number and autograph are widely used. This collaboration is not only a pioneering effort in the sales and marketing of the China Sports brand, but also a significant breakthrough in the development of the China sports market and the strengthening of the Group's position in the basketball sector.

In addition, as the official marketing partner of NBA Jam Van in 2006, the Group has participated in a wide range of activities with the NBA Jam Van and supplied products used in these activities. In 2006, the Group organized 63 activity days in 10 different cities, including Shanghai, Nanjing, Wuhan and Guangzhou. These activities have reinforced the bondage between LI-NING brand and NBA and subsequently enhanced the professional image of the LI-NING brand.

CUBA – Sponsorship for one of the top three basketball associations in the PRC

In December 2005, the Group announced a partnership with the China University Basketball Association ("CUBA") and has become a key partner of one of the top three basketball associations in the PRC. In the PRC basketball sector, CUBA is a leading association in terms of geographical coverage, participation and cultural sophistication. The role of the Group as the sponsor of sports apparel of CUBA has further reinforced the professional image of LI-NING brand in the basketball sector, which in turn has enabled the Group to leverage on the relevant promotional resources in markets at the university level. Such cooperation has also contributed to the setting up of a long-term marketing platform for the Group in the basketball sector.

ATP – Official marketing partner in China

On 16 March 2006, the Group announced its agreement with ATP, the world's premier men's professional tennis tournament association, to become ATP's official marketing partner in China. During the seven-year term of the agreement, the Group would be granted the exclusive right for manufacturing, selling and marketing tennis products including apparel, footwear and accessories co-branded by LI-NING and ATP. These co-branded products would appear in the ATP events as part of the promotion campaign.

Furthermore, ATP would assist the Company in identifying and signing up tennis players for endorsement purposes. Nikolay Davydenko, a Russian tennis player who ranks third in the world was sponsored by the Group and put on LI-NING branded tennis apparel at the Tennis Masters Cup Shanghai in November 2006.

CUFL – Sponsorship for China University Football League

Football is one of the most popular sports activities among university students. The China University Football League ("CUFL") is a major event that attracts participation of the largest number of high school students with the highest level of skills. It exerts the most extensive influence in the football sector amongst high schools in the PRC. In April 2006, LI-NING and the Federation of University Sports of China jointly announced a brand new league game — the LI-NING China University Football League. In the coming 10 years of cooperation, LI-NING will leverage on its multi-faceted advantages in technical know-how and market presence to render its full support to the development of football activities among university students in the PRC by way of event naming, event marketing, brand promotion and sponsorship for sports apparel and goods etc.

Sponsorship for Sudan National Track & Field Team

The LI-NING brand commenced its sponsorship for Sudan National Track & Field Team on 1 January 2006. The track and field athletes of Sudan will put on LI-NING branded products in the 2008 Beijing Olympic Games. The Sudan National Track & Field Team is a team with outstanding performance especially in the middle and long distance races. Their young athletes, who have achieved distinguished results and ranked at the international forefront will play an important role in the 2008 Beijing Olympic Games. The sponsorship will uplift the professional image of the Group in the running events.

LI-NING iRUN Running Club

On 15 October 2006, the LI-NING iRUN Running Club, an interactive professional running platform was officially launched online at the iRUN website (www.irun.cn). This website contains information of professional runners, members' communities and forums, running products introduction, entertainment and activities etc. The launching of this online media offers an all-rounded resource platform for the Group's running products.

Media advertisements

The Group has adopted an effective advertising strategy by using a number of media, such as television commercials and indoor and outdoor media to promote the brand image and to provide product updates. The new series of advertisements launched in 2006 is a perfect integration of oriental essence into the spirit of sports with an international outlook. This effectively delivers the unique character of LI-NING brand by highlighting the distinctive cultural difference between LI-NING brand and its international peers. It also allows LI-NING brand to stand out from the crowd and further expresses the Group's motto, "Anything is Possible". The commercials have deeply impressed the consumers and four of them have won the Grand Prize and other five major awards in the Chinese Element International Creative Contest at the 13th China Advertising Festival held by the China Advertising Association. The Group was also awarded "The Most Creative Organisation" at the First Grand Ceremony of Creative China held in May 2006.

Product Research and Development

The Group has a team of talented product development and design professionals who continuously conduct research and development works for the Group's products. Of a wide array of new products launched during the year, the "Flying Feather" (天羽) running shoes and the "Wind Galloper" (馭風) marathon running shoes series have been applied with innovative designs and advanced technology which not only offers consumers with better product choices, but also further uplifts the professional features and fashion elements of LI-NING branded products.

In 2006, the Group made a breakthrough in product innovation by adding a touch of oriental flavour in its design concept, element and style. The perfect combination of oriental culture and fashion sense is a new concept which distinguishes LI-NING brand from other international brands and has been highly praised by consumers. Among which, the "Flying Armor" (飛甲) basketball shoes which deliver high professional performance and carry strong oriental flavour in design, have won the German "iF China 2006 Industrial Design Award", making the Group the first ever China sports brand awarded such an honour. The Group has also collaborated with international institutions to embark on the research and development of core technologies for sports footwear. During the year under review, the Group launched the proprietary "LI-NING BOW" (李寧弓) anti-shock technology which was inspired by the ancient Chinese arch and bridge structures to design an innovative anti-shock concept that matches the highest international standard.

In relation to apparel products, the Group has made considerable progress in establishing an apparel technology platform with the employment of a wide spectrum of new fabrics, techniques and craftsmanship.

Furthermore, during the year under review, the Group recruited a team of world-class designers to strengthen its design caliber so as to found a solid ground for future business development.

Distribution and Retail Network

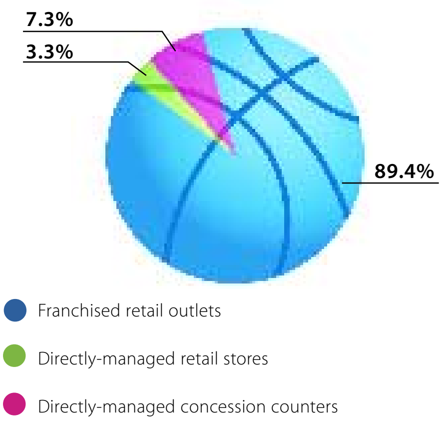
During the year under review, the Group continued to reinforce its edge in network coverage. A notable increase in the number of outlets throughout the PRC, in particular in the second and third-tier cities, was recorded. There was a net increase of 960 new stores during the year, bringing the total number of stores of the Group to 4,333. As at 31 December 2006, the domestic distribution and retail network of the Group comprised:

- over 210 distributors operating 3,875 franchised retail outlets under the LI-NING and the AIGLE brands across the PRC; and
- a total of 141 directly-managed retail stores and 317 concession counters in Beijing, Shanghai and 13 provinces in the PRC.

Number of franchised and directly-managed retail stores

	As at 31 December 2006	2005	Change (%)
LI-NING brand			
Franchised retail outlets	**3,860**	3,005	28.5
Directly-managed retail stores	**138**	111	24.3
Directly-managed concession counters	**299**	257	16.3
Total	**4,297**	3,373	27.4
AIGLE brand			
Franchised retail outlets	**15**	—	100.0
Directly-managed retail stores	**3**	—	100.0
Directly-managed concession counters	**18**	—	100.0
Total	**36**	—	100.0
Overall			
Franchised retail outlets	**3,875**	3,005	29.0
Directly-managed retail stores	**141**	111	27.0
Directly-managed concession counters	**317**	257	23.3
Total	**4,333**	3,373	28.5

Percentage of franchised and directly-managed retail stores in 2006



With a view to establish an international, professional and trendy image for LI-NING brand and to enhance store efficiency, the Group has continued to enhance store image, display and renovation. During the year under review, 672 shops were renovated. As at 31 December 2006, there was a total of 1,889 fourth generation stores. The Group will continue to explore suitable locations for the opening of flagship stores and brand stores in metropolitan and first-tier cities in the PRC. As at 31 December 2006, the Group operated 26 flagship stores.

Supply Chain Management

The Group has adopted a comprehensive supply chain management regime encompassing procurement, supplies, manufacturing and sub-contracting for its product lines. During the year under review, the Group continued to adopt a flexible and effective supply chain management strategy which enabled it to respond efficiently and timely to market changes. Key attributes of the supply chain management are highlighted as follows:

- Four large-scale sales fairs for distributors were organised to shorten the cycle from product development to order placements;
- The inventory management system has undergone reform and continual sophistication, thereby shortening the average inventory turnover from 84 days in 2005 to 70 days in 2006. The improvements in inventory turnover was a strong evidence of the Group's sound inventory management capability;
- Average accounts receivable turnover was increased from 44 days in 2005 to 55 days in 2006, as a result of the Group's strategy to extend the credit period granted to customers in line with the rapid business growth and industry practice; and
- Average trade payables turnover stood at 67 days, approximated to the 68 days for 2005.

During the year, the Group has reformed the supply chain management mechanism by turning it into a demand-driven mode so as to accelerate response to market needs and to establish a competitive integrated supply chain system.

New Business Development

The joint venture established by the Group and AIGLE of France commenced operation in the first half of 2006. AIGLE is a world-renowned company which specializes in the business of apparel and footwear products for outdoor sports and leisure activities. Pursuant to the agreement between the Group and AIGLE, a wholly foreign-owned enterprise set up in the PRC by the joint venture has been granted the exclusive right by AIGLE to manufacture, market, distribute and sell apparel and footwear products for outdoor leisure activities and extreme sports with the AIGLE trademarks in the PRC (excluding Hong Kong, Taiwan and Macau) for a term of 50 years. Satisfactory progress has been made in the sales outlet expansion. As at 31 December 2006, there were 36 AIGLE outlets in the PRC. Going forward, the Group will rapidly expand the retail network and adjust AIGLE's product portfolio and pricing in order to boost sales.

The Group will continue to seek mutually beneficial partnerships with international brands to introduce them to the PRC market, and in turn, to develop itself into a multi-brand operator with a strong portfolio of reputable brands.

FINANCIAL POSITION

The Group is committed to the development of a risk-resistant, ever-growing and healthy cashflows so as to maintain a solid and strong financial position.

Net Asset Value

As at 31 December 2006, the Group's total net asset value was RMB1,417,079,000 (31 December 2005: RMB1,178,296,000). Net asset value per share was RMB137.38 cents (31 December 2005: RMB115.09 cents).

Liquidity and Capital Resources

For the year ended 31 December 2006, the Group's net cash inflow from operating activities amounted to RMB293,390,000 (2005: RMB138,605,000).

Net cash (cash and cash equivalents less bank borrowings) as at 31 December 2006 amounted to RMB838,867,000, representing an increase of RMB460,499,000 compared with the net cash position as at 31 December 2005. The increase represents the aforesaid cash inflow from the operating activities of RMB293,390,000, proceeds from the issue of new shares upon exercise of share options under the Company's share option schemes of RMB15,769,000, interest income received of RMB17,723,000 and net return of fixed deposit of RMB334,059,000, less dividend payment of RMB88,270,000, expenditure on purchase of shares under the Restricted Share Award Scheme of RMB6,367,000, net capital expenses of RMB105,185,000, net cash outflow from disposal of a subsidiary amounting to RMB109,000 and cash reduction of RMB511,000 due to fluctuation in the exchange rates.

As at 31 December 2006, the Group's cash and cash equivalents amounted to RMB838,867,000 (31 December 2005: RMB378,368,000). There were no outstanding bank borrowings (31 December 2005: nil). Equity holders' equity amounted to RMB1,399,490,000 (31 December 2005: RMB1,160,924,000). The debt to equity holders' equity ratio, expressed in total outstanding bank borrowings as a percentage of equity holders equity, was nil (31 December 2005: nil).

As at 31 December 2006, the Group did not enter into any interest rate swaps to hedge against interest rate risks.

Pledge of Assets

As at 31 December 2006, no asset of the Group was pledged to secure bank borrowings or for any other purpose.

Contingent Liabilities

As at 31 December 2006, the Group had no material contingent liabilities.

Foreign Exchange Risk

The operation of the Group mainly carries out in the PRC with most transactions settled in Renminbi, the lawful currency of the PRC. Proceeds from the initial public offering of the Company in June 2004 were denominated in Hong Kong Dollars, part of which has been invested in fixed deposits denominated in US Dollars or Hong Kong Dollars. The Company also pays dividends in Hong Kong Dollars. The Group may be exposed to foreign exchange fluctuation in relation to its deposits.

HUMAN RESOURCES

As at 31 December 2006, the Group had approximately 2,365 employees (31 December 2005: 2,890 employees). The decrease in the number of employees was mainly due to (i) the outsourcing of sales activities which led to a reduction in the number of sales staff; and (ii) the reduced number of workers who engaged in manufacturing.

Talents are invaluable assets of the Group. The Group aspires to offer a good working environment, a wide range of training and personal development programs as well as an attractive remuneration package to the employees. The Group endeavors to motivate its staff with performance-based remuneration. On top of a basic salary, staff with outstanding performance will be rewarded in the form of cash, share options, honorary awards or a combination of these. On 14 July 2006, the Board adopted its Restricted Share Award Scheme. Through shares award, staff benefits can be effectively aligned with the growth of the Group and such arrangement can further achieve the goal of attracting and motivating talented employees in the long run.

SUBSEQUENT EVENTS

Joined hands with CCTV to launch a new image for National Sports TV Channel

The Group announced on 5 January 2007 the signing of a cooperation agreement with CCTV National Sports TV Channel. Pursuant to the agreement, all hosts and reporters of the National Sports TV Channel will put on the apparel, footwear and accessories of the LI-NING and AIGLE brands in all programs broadcasted in the channel, including the Olympic Channel which will be released during the 2008 Beijing Olympics, for the period from 1 January 2007 to 31 December 2008. CCTV National Sports TV Channel is the professional sports TV channel in China which relays the largest number of international sports programs. It is also the most influential and popular sports TV channel. The cooperation has marked the commencement of a highly integrated sales and marketing model of sports goods. The Group will make use of this important channel to facilitate external communication and promote the international and professional image of LI-NING brand.

Cooperation with Argentina National Basketball Teams

The Group announced on 12 January 2007 an important milestone for its international brand expansion. It forged an agreement with the Argentina basketball federation Confederación Argentina de Basquet to be its official partner for a term of six years. Pursuant to the agreement, the Group will sponsor a series of specially designed sports apparel for the men's and women's Argentina National Basketball Teams who will wear LI-NING branded apparel at major international sports events such as the 2008 Beijing Olympics and the 2012 London Olympics. This has been another remarkable accomplishment of the Group in sports marketing in the basketball sector since the signing of the four-year agreement with the Spanish Basketball Federation in 2004. It is also an important step for the Group's international brand extension strategy and a proof of recognition on the professional quality of the Group's sports products by the world's top national teams.

Cooperation with Swedish Olympic Committee

On 24 January 2007, the Group announced the agreement entered into with the Swedish Olympic Committee for a term of four years, under which the Group has become the designated official partner of the Swedish Olympic Committee in supplying the Swedish Olympic Delegation with a range of sports apparel in the 2008 Beijing Olympics and 2010 Vancouver Winter Olympics. Under the agreement, the Group is also authorized to sell Olympics-related products in Sweden. The LI-NING brand will therefore appear in a wide range of Olympic promotional activities in Sweden. The Group is the first Chinese sports brand that entered into such form of agreement with an overseas Olympic delegation. This cooperation is considered a major step in the Group's brand international expansion.

OUTLOOK AND DEVELOPMENT STRATEGIES

The economy in the PRC is expected to remain strong in the near future. With the approaching of the 2008 Beijing Olympics, the China sports goods industry will maintain a strong growth. Nevertheless, competition in the industry would also be intensive.

The Group aspires to unleash its potential to achieve breakthrough through innovation so as to strengthen its market leading position and to hone its competitive edge in the international sports arena. We will continue to enhance the core competency of LI-NING brand and to strengthen the foundation through a number of measures such as optimization of product mix to maximize different geographical market potentials, adjustments in sales organisation and further enhancement of supply chain management platform. At the same time, the Group will also strengthen brand differentiation through innovative integrated sales and marketing network adjusted in accordance with the needs of different regional markets. The growth strategies will place strong emphasis on the second and third-tier cities by extending the Group's network and by increasing efficiency on retail level so as to strengthen the core business and to accelerate the pace of growth.

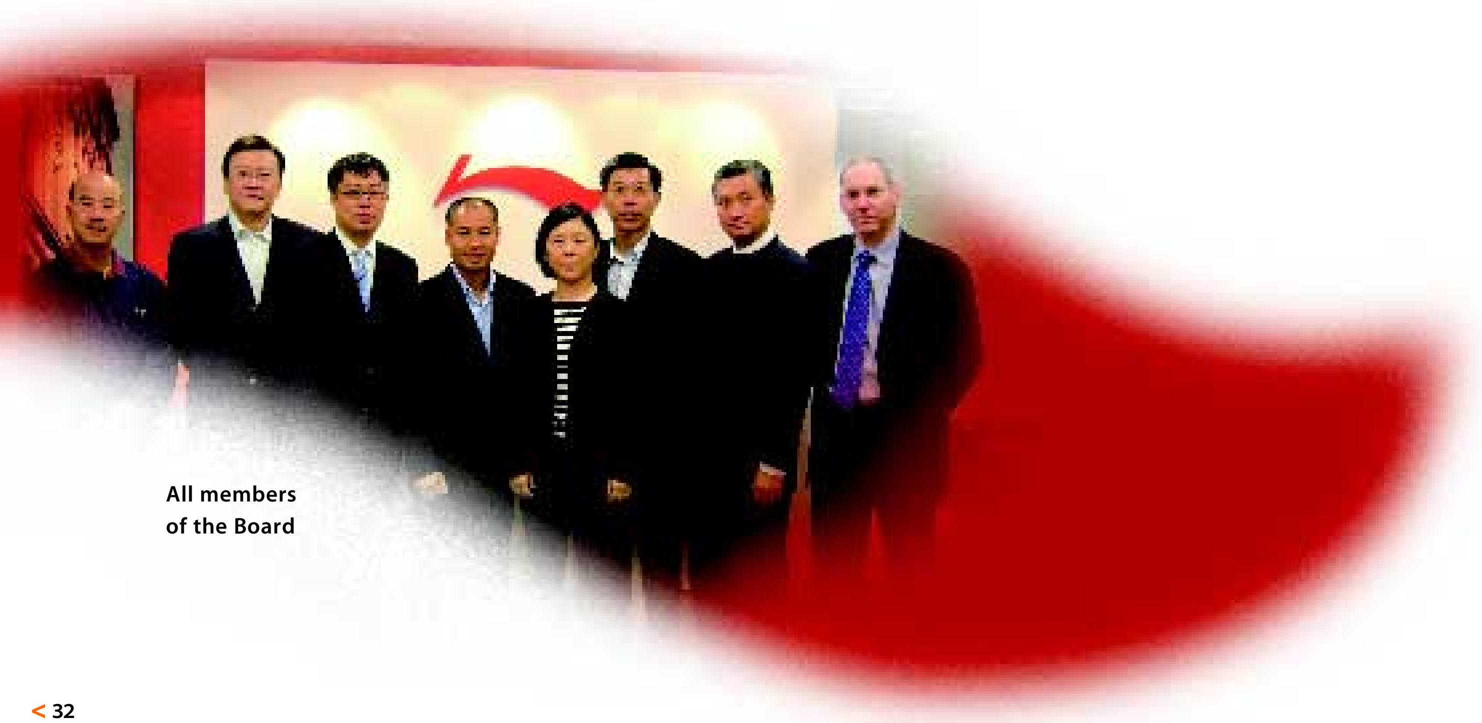
The Group will continue to adopt the multi-brand business strategy in order to expand its business to new areas. This will enable the Group to increase its competitiveness and add new engines to fuel its future development.

As the final countdown phase for the 2008 Beijing Olympic Games has been reached, the Group has activated a series of campaigns, mainly in the metropolitan and the first-tier cities, to capitalize the commercial opportunities arising from the event. Innovative sales and marketing strategies as well as brand and product marketing programmes will be launched to realize the Group's goal in achieving remarkable stride at this grand event so as to establish a new foundation for the future development of LI-NING brand.

In line with its development strategies and objectives, the Group has adjusted its organisation structure in 2006 in order to develop a high caliber professional management structure and team. Leveraging its competitive advantages, the Group is committed to offer high quality products to consumers, work satisfaction and a sense of belonging to employees, and attractive returns to shareholders and investors.

Geared up

Corporate Governance Report



All members of the Board

The Board recognises their mission of creating values and maximising returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. To this end, the Board strives to promote and uphold a high standard of corporate governance. During 2006, the Company complied with all the principles and provisions and most of the recommended best practices set out in the Code on Corporate Governance Practices ("Corporate Governance Code") of the Listing Rules. The corporate governance practices adopted by the Company are summarised below.

BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors has the responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The Directors

As at the date of this report, the Board consists of the following eight Directors:

Executive Directors
Mr. Li Ning *(Chairman)*
Mr. Zhang Zhi Yong *(Chief Executive Officer)*
Mr. Tan Wee Seng *(Chief Financial Officer)*

Non-executive Directors
Mr. Lim Meng Ann
Mr. Stuart Schonberger

Independent non-executive Directors
Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei, Jane
Mr. Chan Chung Bun, Bunny

Mr. Fong Ching, Eddy, a former non-executive Director of the Company, resigned on 20 October 2006 due to his appointment as chairman of the Securities and Futures Commission of Hong Kong.

Biographical details of the Directors are set out on pages 48 to 51 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

To ensure a balance of power and authority, the role of the Chairman and the Chief Executive Officer is segregated. There is a clear distinction between the Chairman's responsibility for the management of the Board and the Chief Executive Officer's responsibility for the management of the day-to-day operations of the Group's business.

Each of the non-executive and independent non-executive Directors has entered into a service contract with the Company for a term of three years commenced on 28 June 2004. Each of them has agreed with the Company to enter into a new service contract for a further term of three years commencing from 28 June 2007 on terms and conditions to be mutually agreed. The incumbent non-executive and independent non-executive Directors have extensive professional experience and all have participated in the meetings of the Board and related specialised committees in a highly conscientious and responsible manner. They have played an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole.

The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. The Company considers all independent non-executive Directors to be independent.

All Directors should be subject to retirement by rotation at least once every three years and are eligible for re-election. A new Director appointed by the Board is subject to election by Shareholders at the general meeting immediately after his or her appointment.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers with the extent of the insurance being reviewed each year.

Responsibilities of the Board

The Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the performance of the operating divisions against their agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategies;
- approving the strategic, operational and financial plans;
- approving financial statements and public announcements;
- setting the dividend policy;
- approving financial and treasury policies; and
- committing to major acquisitions, disposal, formation of joint ventures and capital transactions.

Responsibilities for Accounts

The Directors are responsible for the preparation of the financial accounts of the Company for each financial year and ensuring that these accounts give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records of the Company which disclose the financial position of the Group are kept at all times.

Board Meetings

The Board meets at least four times a year. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set after consulting with members of the Board. The Board held four meetings in 2006 and attendance of each Director at the meetings is set out below:

Member of the Board	Number of Board meetings attended	Attendance rate
Executive Directors		
Li Ning	4 out of 4	100%
Zhang Zhi Yong	4 out of 4	100%
Tan Wee Seng	4 out of 4	100%
Non-executive Directors		
Lim Meng Ann	3 out of 4	75%
Stuart Schonberger	2 out of 4	50%
Fong Ching, Eddy*	3 out of 3	100%
Independent non-executive Directors		
Koo Fook Sun, Louis	4 out of 4	100%
Wang Ya Fei, Jane	4 out of 4	100%
Chan Chung Bun, Bunny	3 out of 4	75%

* *Mr. Fong Ching, Eddy resigned as a non-executive Director on 20 October 2006. Three Board meetings were held during the period from 1 January 2006 to the date of Mr. Fong's resignation.*

BOARD COMMITTEES

The Board is supported by a number of committees, including the Executive Committee, the Nomination Committee, the Remuneration Committee and the Audit Committee. Each of them has its defined terms of reference approved by the Board covering its duties, powers and functions. Each of these Committees reports regularly to the Board, addressing major issues and findings with valuable recommendations for the decision making of the Board. The particulars of each of these Committees are set out hereunder.

Executive Committee

The Board has established the Executive Committee to enhance management efficiency. The Executive Committee currently comprises three executive Directors, namely, Mr. Zhang Zhi Yong (chairman of the Committee), Mr. Li Ning and Mr. Tan Wee Seng and Mr. Guo Jianxin, the Chief Operating Officer of the Company and Mr. Xu Weijun, the Chief Marketing Officer of the Company. The Executive Committee is delegated by the Board to perform mainly the following duties:

- setting the Group's strategic, operational and financial plans for the approval by the Board;
- examining and approving strategic business directions at the subsidiary level;
- examining and approving financial arrangements of the companies of the Group within a limit approved by the Board; and
- deciding on the appointment and removal of senior management members of the Group.

The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority are achieved.

Nomination Committee

The Nomination Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Nomination Committee are Mr. Lim Meng Ann (chairman of the Committee), Mr. Koo Fook Sun, Louis and Ms. Wang Ya Fei, Jane.

The Nomination Committee adopts the recommended terms of reference set out in the Corporate Governance Code as its terms of reference which are available on the Company's websites. Its main role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession of Directors by reference to certain guidelines, including appropriate professional skills, knowledge and industry experience, personal ethics, integrity and skills and time commitment to the Board's affairs. This is to ensure that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group.

The Nomination Committee met once in 2006 with full attendance of its members to discharge its responsibilities. There was no nomination of Directors to the Board in 2006. The Committee has formed a view, which has also been endorsed by the Board, that subsequent to the resignation of Mr. Fong Ching, Eddy as a non-executive Director of the Company on 20 October 2006, a new director should be identified and be nominated to the Board to fill the vacancy. The Nomination Committee will use its best endeavour, including consideration of referrals and engagement of professional recruitment consultants where necessary, to identify and recommend candidates suitably qualified to become a board member for the Board's further decision.

Remuneration Committee

The primary responsibility of the Remuneration Committee is to formulate remuneration policies and practices to enable the Company to attract, retain and motivate quality personnel which is essential to the success of the Company.

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Remuneration Committee are Ms. Wang Ya Fei, Jane (chairman of the Committee), Mr. Lim Meng Ann and Mr. Koo Fook Sun, Louis.

The Remuneration Committee has adopted the terms of reference as outlined under the Corporate Governance Code. The current terms of reference of the Remuneration Committee are available on the Company's websites.

The Remuneration Committee met three times in 2006. Individual attendance of each of its members at the Remuneration Committee meetings is set out as follows:

Member of the Remuneration Committee	Number of Committee meetings attended	Attendance rate
Wang Ya Fei, Jane	3 out of 3	100%
Lim Meng Ann	3 out of 3	100%
Koo Fook Sun, Louis	3 out of 3	100%

The following is a summary of the work attended by the Remuneration Committee in 2006:

- review of the Group's long-term incentive policy including, among others, granting of share options and restricted shares under the relevant schemes of the Company;
- annual review and determination of remuneration packages for Directors and senior executives;
- review and setting of key performance indicators for senior management; and
- review and setting of the Company's annual bonus plan according to the Company's key performance indicators.

In discharge of its functions, the Remuneration Committee consults and seeks advice from the Chairman, the Chief Executive Officer, the Chief Financial Officer and the director of Human Resources of the Company. External professional consultants can be engaged to provide advice on issues when the Remuneration Committee considers necessary.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, basic salary, discretionary bonus and share options. Remuneration of non-executive Directors includes mainly the director's fee which is a matter for the Board to decide. The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or meetings approving their own remuneration. The emoluments paid to each Director for the year ended 31 December 2006 are set out in note 23 to the consolidated financial statements.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditors.

The Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Audit Committee are Mr. Koo Fook Sun, Louis (chairman of the Committee), Mr. Stuart Schonberger and Ms. Wang Ya Fei, Jane. All of them possess appropriate professional qualifications or accounting or related financial management expertise in discharging their responsibilities as members of the Audit Committee.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Corporate Governance Code. The current terms of reference are available on the Company's websites.

The Audit Committee normally meets three times each year. The external auditors, the Chief Executive Officer, the Chief Financial Officer and the department heads of the Internal Audit Department and Accounting Management Department are invited to attend the meetings to provide necessary information and to address questions from the Audit Committee. Individual attendance of each Audit Committee member at the meetings held in 2006 is set out as follows:

Member of the Audit Committee	Number of Committee meetings attended	Attendance rate
Koo Fook Sun, Louis	3 out of 3	100%
Stuart Schonberger	2 out of 3	67%
Wang Ya Fei, Jane	3 out of 3	100%

The following is a summary of the work performed by the Audit Committee in 2006:

- review of and recommendation for the Board's approval of 2005 annual financial statements and 2006 interim financial statements with focus on compliance with accounting standards, Listing Rules and other requirements in relation to financial reporting;
- review of the external auditors' statutory audit plan and the nature and scope of audit before commencement of audit work;
- discussion with the external auditors and the management on possible accounting risks;
- review of 2006 internal audit findings and recommendations and approval of 2007 internal audit plan;
- review of the effectiveness of the Company's internal control systems;
- approval of the audit fees and terms of engagement of the external auditors; and
- review of independence of the external auditors and recommendation to the Board on the re-appointment of the external auditors.

EXTERNAL AUDITORS

For the year ended 31 December 2006, the total remuneration for the audit services provided by the external auditors amounted to RMB3,120,000 (2005: RMB2,788,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2006, the total remuneration for the permissible non-audit services provided by the external auditors (including any entity under common control, ownership or management with the auditors) amounted to RMB1,131,000 (2005: RMB1,000,000). The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been notified with the non-audit services and fees and was satisfied that such services did not (in terms of the nature of services and the amount of fees charged) affect the independence of the external auditors.

Prior to commencement of the audit of 2006 accounts of the Company, the Audit Committee had received written confirmation from the external auditors on their independence and objectivity.

The re-appointment of PricewaterhouseCoopers as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

System and Framework

The Company has put in place an integrated system of internal control, which adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), with the nature of the Group's business, operational and financial risks, organisation culture and management philosophy being taken into account. The system plays a key role in managing the risks that are significant to safeguard the shareholders' investment and the assets of the Company.

Under the Company's internal control framework, it is the Board's responsibilities to maintain a sound and effective system of internal control and to review its effectiveness through the Audit Committee, while the management is responsible for designing, operating and monitoring the system and for providing assurance to the Audit Committee and the Board that they have done so.

The Company's internal control system is designed to achieve (i) effectiveness and efficiency of operations; (ii) reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system provides reasonable, but not absolute, assurance against material misstatement, fraud or loss and manages, rather than eliminates risks of failure in operational system in order to ensure that the Company will meet its agreed objectives and goals. The system comprises the following aspects:

(i) A governance structure has been established with defined lines of responsibility and appropriate delegation of authority, embracing the Board, the Audit Committee, the Internal Audit Department, senior management members and division/department heads. During the year under review, an Internal Control Working Group, which is a functional unit reporting to the Chief Financial Officer, has been newly established by the Company. Its primary responsibilities are to coordinate with and provide support to the implementation and on-going assessment of the internal control system throughout the Group and to organise and conduct the annual review of the effectiveness of the Group's internal control system.

(ii) A strategic plan which sets out the corporate strategies to be pursued in the next three years for achieving the annual operating and financial targets will be prepared each year under which resources are allocated in accordance with identified and prioritised business opportunities. On-time and regular operational and financial reports are received and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situation against the agreed annual operating and financial targets and to consider necessary action as well as to ensure such action is carried out promptly to remedy any significant failing or weakness.

(iii) Written policies and standards are developed from time to time for safeguarding assets against unauthorised use or disposition; maintaining proper accounting records to ensure reliability of financial information used within the business or for publication; and compliance with applicable laws. Standardised internal control manuals for key operational and functional divisions of the Group have also been established since 2005 and are updated at least annually with an aim to further enhance and monitor the effectiveness of the internal control system on a continuing basis.

(iv) Independent reviews of the risks associated with, and internal controls over, key operations and financial and compliance functions, are performed by the Internal Audit Department and the external auditors. Significant issues, together with recommendations for improvement, are adequately addressed to the Audit Committee or the Board.

System Review

The Board recognises that internal control needs to be responsive and to remain relevant over time in the continuously evolving business environment. The Company's internal control system is therefore subject to continuous review and improvement to enable the Company to be responsive to any change in the risks faced by the Company. In addition, a comprehensive review of the effectiveness of the Company's internal control system is conducted annually, covering all material controls, including financial, operational and compliance controls and risk management functions. The review is performed internally using the control self-assessment approach, with each division and individual member of senior management of the Company being requested to assess the effectiveness of the Company's internal control system against the five elements outlined by the COSO internal control system, namely, control environment, risk assessment, control activities, information and communication and monitoring. Through the reviewing process, process owners are able to certify whether the internal control system is working as intended or to identify failings or weaknesses and the relevant actions taken or to be taken in order to rectify them. The Internal Audit Department will also carry out independent examination on the reviewing process and results. Based on the results, the Chief Executive Officer and the Chief Financial Officer will submit a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Company's internal control system.

The results of the review conducted for the year ended 31 December 2006 have been reported to the Audit Committee and the Board. Judging on the results, the Audit Committee and the Board confirm that the systems and procedures of the Company's internal control are in good order so as to identify, control and report on significant risks involved in achieving the Company's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have been taken or designed to be taken. No material deficiencies had been identified so far and there were no significant areas of concern which may affect the Shareholders. The Board considers that the Company's internal control system is adequate and effective and the Company has complied with the provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2006.

Internal Audit

The Company has an Internal Audit Department which plays an important role in the Group's internal control framework with an aim to provide objective assurance to the Audit Committee and the Board that a sound internal control system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the internal audit team attends the regular meetings of the Audit Committee and maintains constructive dialogue with the Company's external auditors.

By adopting the risk assessment methodology, the Internal Audit Department schedules its internal audit program annually which is endorsed by the Audit Committee. The tasks of the Internal Audit Department include regular review and audit of the practices, procedures and internal control systems of different financial and operational activities of the Group with resources being focused on higher perceived risks. Special reviews will also be conducted in various concerned areas identified by the management or the Audit Committee.

Audit reports addressing significant audit findings or identified risks, together with recommendations for remedial action are submitted to and discussed with the Audit Committee and the management on a regular basis. All reports will be followed up by the Internal Audit Department to ensure that all issues have been satisfactorily resolved. The Internal Audit Department is also responsible for assessing the Group's internal control system and formulating an impartial opinion on the effectiveness of the system.

PRICE SENSITIVE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company's policy has adopted a strict prohibition on the authorised use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chief Financial Officer, the Chief Executive Officer and the Chairman are identified and authorised to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

CONDUCT ON SHARE DEALINGS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules regarding securities transactions by its Directors. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2006 and up to the date of this report.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in 2006.

SHAREHOLDERS' RIGHTS

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition.

To safeguard Shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any Shareholders' meeting. Details of the poll voting procedures and the rights of Shareholders to demand a poll are set out in every circular to Shareholders accompanying the notice convening the Shareholders' meeting.

For the year under review, there was no change made in the Company's articles of association.

To facilitate communication further, Shareholders may send their enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 5 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 45 of this annual report and posted on the Company's websites.

SHAREHOLDERS' MEETINGS

The Company's annual general meeting is one of the principal channels of communication between the Company and the Shareholders. It provides the best opportunity for Shareholders to better understand the Company's operation, financial performance, business strategies and outlook. To encourage Shareholders to attend the meeting, more than 21 clear days' notice and a circular containing necessary information would be given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. Q & A section is available for Shareholders to raise questions and the Directors would respond to such questions at the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 12 May 2006 at the Four Seasons Hotel, Hong Kong. Most of the Directors and the Company's external auditors were present at the meeting. At the annual general meeting, separate resolutions were proposed for each issue and were voted by poll. Apart from the ordinary business of adopting the audited financial statements for the year ended 31 December 2005, matters including declaring final dividend, re-electing Directors, re-appointing auditors and authorising the Directors to fix their remuneration were approved in the meeting. Ordinary resolutions providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules were also approved. All the resolutions proposed at the meeting were approved by Shareholders and details of the poll results were declared at the meeting and are published on the Company's websites.

The next annual general meeting of Shareholders will be held on 11 May 2007. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to Shareholders together with this annual report.

GOING FORWARD

In 2006, the Company's commitment to corporate governance gained recognition from the investment community. The Company was ranked one of the top 10 Chinese companies with the best corporate governance by investment professionals and financial analysts in the "Asia's Best Companies Poll 2006" conducted by FinanceAsia Magazine. Going forward, the Board will continue to review and improve its corporate governance regime in response to internal and external changes with an aim to maintain a high degree of transparency, accountability and independence to all stakeholders.

By order of the Board

ZHANG Zhi Yong
Executive Director & Chief Executive Officer

TAN Wee Seng
Executive Director & Chief Financial Officer

Hong Kong, 20 March 2007

Investor Relations Report

Mr. TAN Wee Seng,
Chief Financial Officer

OVERVIEW — AN OPEN AND PROACTIVE IR STRATEGY

The Company is committed to upholding an open and proactive investor relations ("IR") strategy aimed at optimizing the knowledge and understanding of the investment community with respect to the Company's corporate mission and vision, development strategies, competitive position in the industry and operating and financial performance, so as to enable the investing public to make informed decisions about their investment. The Company fulfills this through a designated investor relations department ("IR Department").

Spearheaded by the Chief Financial Officer, the IR Department places strong emphasis on the importance of interactive two-way communication with its stakeholders and in a broader sense the investing public, to help investors evaluate the underlying value, development potential and prospects of the Company. Priority is given to fair, accurate and timely information disclosure to ensure a high level of transparency.

IR PROGRAM REVIEW — TIMELY AND ACCURATE INFORMATION DISSEMINATION

The IR Department acts as an intermediary between the Company and the investing public. The Group abides by fair disclosure guidelines to ensure that communication with Shareholders, investors and the media is conducted in a fair manner and that no material non-public information is made available to any individual on a selective basis.

To reach out to a wider portion of the investing public, the Company maintains two-way communication with the investment community to enhance transparency.

The IR activities of the Company conducted in 2006 are summarised below.

Informative Financial Reports

The Group accords a high priority to annual and interim reports as major communication tools with Shareholders. Considerable resources have been deployed to compile informative documents conveying its vision, operating strategies, business and financial performance as well as future outlook in a comprehensive manner.

Interactive Communication with Shareholders

The Company has made use of a number of channels to interact with investors to keep them abreast of the Company's developments.

- ***Annual and interim results presentations to investors and analysts***
  Meetings were held with investors and analysts to update them on the financial results of the period just completed, the strategy and related outlooks. The Chairman, the Chief Executive Officer and the Chief Financial Officer of the Group were there to conduct briefings with analysts on the Group's operating results as well as on business strategies and outlook.

- ***International roadshows and investment forums***
  Meetings with investors took place throughout the year. These events mainly consisted of global investor roadshows and investment conferences hosted by investment banks and brokerage firms all over the world. Typically, the roadshows are held after results presentations so that investors may acquire information first-hand from management while the results are still current.

- ***Ongoing communication with the investment community***
  Regular face-to-face meetings and an ongoing schedule of telephone/ conference calls with institutional investors and research analysts were held throughout the year. These serve the dual purpose of maintaining close contact with investors and gathering any feedback they may have on the Group's operations.

- ***Store visits and reverse roadshows***
  Upon receiving requests for store visits, the IR Department made prompt arrangements for investors and research analysts to fully utilize the opportunity to gather first-hand information on the Company's products and store performance.

  In addition, the IR Department also initiated the organisation of reverse roadshows when suitable opportunities arise. Since the Company's listing on the Hong Kong Stock Exchange in 2004, the IR Department has organised two reverse roadshows to invite analysts and investors to join its major trade fairs and flagship store visits whereby key management members were there to address questions.

  The Company believes such events have enabled investors to get hold of a fair picture on the Group's daily operations.

- ***Press conferences and briefings***
  The Company also communicates with investors through other channels, such as news releases, press conferences or media interviews, to keep the media, the investment community and the public abreast of the Company's developments.

  The management considers media relations as an indispensable part of its IR programme through which the Company can reach a larger group of audience in an effective and efficient manner. During the year under review, the management of the Company met the press on a regular basis and interviewed the international, regional and local media which contributed to the building of its corporate profile.

- ***Timely response to investors, analysts and the media***
  The IR Department provides timely and accurate information in response to all forms of enquiries from Shareholders, investors, analysts and the media via email, fax or telephone. Designated personnel are assigned for the task to ensure that all information disclosed is on a fair and non-selective basis and is in line with the Company's policy and the relevant regulatory requirements.

During the year under review, the Company participated in international roadshows to Hong Kong, Singapore, Europe, Japan and the United States, and joined investment forums held by the world's famous investment banks and other activities included one-on-one and group meetings with fund managers and analysts, conference calls and visits to the Company's stores in the PRC. Details of such activities are listed below:

Type of event	Number of participation in 2006
International roadshows	2 rounds, 8 times
Investment forums	13 forums
One-on-one and group meetings with fund managers and analysts*	269 meetings
Conference calls	30 conference calls with local and overseas investors
Visits to the Company's stores in the PRC	21 visits
Media interviews	15 times, by over 23 media

* *including the meetings in roadshows, forums and company visits.*

Corporate Websites

To ensure all Shareholders to have equal and timely access to important company information, the Company have made extensive use of the corporate websites (www.lining.com, www.li-ning.com and www.irasia.com/listco/hk/lining) to deliver up-to-date information. The websites are updated regularly to enable the public to access information on the Group's activities, corporate governance, management team, operating and financial performance, latest business developments and share performance. They also provide a platform to disseminate the Company's announcements, interim and annual reports and other corporate communications to all stakeholders in a timely manner.

ACCOLADE AND RECOGNITION

The Company's continuous commitment to investor communications has gained recognition from the market. Since the Company's listing on the Hong Kong Stock Exchange, there have been research analysts of more than 14 investment banks covering the Company, and the number is still growing.

With dedicated efforts in preparing a set of well designed and informative company reports, the Company's 2005 Annual Report has been given the following awards:

- Silver Award in the 20th Annual International Mercury Competition; and
- Honorable Mention in the Platinum PR Awards hosted by PR News.

These two awards are from widely recognised international annual report competitions. Judging criteria are based on the effectiveness of communication, the presentation of financial results, the overall design and presentation, and the positioning and delivery of company messages.

In addition, the Group's Chief Financial Officer, Mr. TAN Wee Seng, has been named the "Outstanding CFO in China 2005" in "The Outstanding CFO in China Awards", a professional contest jointly organised by CFO Magazine and IDG China. Not only does such an honor attest to Mr. Tan's personal accomplishments in the field of financial management, but also recognise of the effective financial management and investor communications of the Company.

During the year under review, the Group's vision, competitive strengths and corporate strategies were well received by the investment public, as reflected in coverage by an increasing number of analysts and in its share performance. These represent an endorsement of the solid operating performance and the growth potential of the Group.

OUTLOOK — OPEN DIALOGUE, CLOSE BONDAGE

Investor relations requires committed, ongoing efforts and support from top management to uphold a high level of corporate transparency. The IR Department has full backing from the Board and the management in this respect. Fuelled by the same passion to excel in investor relations as in other aspects of its business, the Company will continue to pursue a proactive IR strategy and practice good investor relations in every way and at every opportunity.

INFORMATION FOR INVESTORS

Share Information

Listing: the Main Board of the Hong Kong Stock Exchange since 28 June 2004
Stock code: 2331
Board lot: 2,000 Shares
Number of Shares outstanding as at 31 December 2006: 1,032,197,001 Shares
Market capitalisation as at 31 December 2006: HK$12,861,174,632.46

Dividends for 2006

Interim dividend: RMB3.80 cents per Share
Proposed final dividend: RMB7.64 cents per Share

Financial Calendar

Announcement of interim results: 28 August 2006
Announcement of annual results: 20 March 2007
Book closing dates for final dividend: 8 May 2007 – 11 May 2007
Record date for final dividend: 11 May 2007
Annual general meeting: 11 May 2007
Payment date of final dividend: on or about 21 May 2007

Corporate Websites

To know more about the Group, please visit the following Company's websites:

http://www.lining.com
http://www.li-ning.com
http://www.irasia.com/listco/hk/lining

IR Contact

For enquiries, please contact:

Investor Relations Department
Li Ning Company Limited
Suite 3201, China Merchants Tower,
161 East Lujiazui Road,
Pudong, Shanghai, PRC
Postal Code: 200120
Telephone: +8621 5879 7298
Fax: +8621 5879 9009
E-mail: investor@lining.com


Steadfast
Perseverance

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. LI Ning (李寧), aged 44, is the founder of LI-NING brand and the Group's Chairman and an executive Director. He is primarily responsible for the Group's overall corporate strategies, planning and business development.

Mr. Li Ning is one of the most outstanding athletes in the 20th century. In the 6th World Cup Competition in 1982, Mr. Li won six gold medals for men's artistic gymnastics and was named "體操王子" (the "Prince of Gymnastics") in the PRC. In the 23rd Los Angeles Olympic Games in 1984, Mr. Li won three gold, two silver and one bronze medals, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the only Asian member of Athlete's Commission of the International Olympic Committee. From 1993 to 2000, Mr. Li served as a member of the Men's Artistic Gymnastics Technical Committee of the Federation Internationale De Gymnastique. He is currently a honorary member of the Federation Internationale De Gymnastique. In 1999, Mr. Li was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association.

After retiring in 1989 from his athlete career, Mr. Li Ning initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past 17 years to expanding and promoting the Group's business, as well as developing the PRC's sports goods industry. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), a M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院) and a technical honoary doctorate from the Loughborough University in the United Kingdom.

Mr. ZHANG Zhi Yong (張志勇), aged 38, is the Chief Executive Officer and an executive Director. Mr. Zhang joined the Group in December 1992 as a finance manager of Beijing Li Ning, became the financial controller of Beijing Li Ning in April 1999 and was the general manager of Beijing Li Ning from March 2001 to December 2005. Mr. Zhang is primarily responsible for the overall development, sale and marketing of the Group's products. Mr. Zhang has over 10 years of experience in financial and marketing management. Mr. Zhang holds a bachelor's degree from Beijing College of Economics (北京經濟學院) and a M.B.A degree from Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. TAN Wee Seng (陳偉成), aged 51, is the Chief Financial Officer, an executive Director, Qualified Accountant and the Company Secretary. Mr. Tan joined the Group in January 2003. He is primarily responsible for the Group's overall financial management, capital planning and allocation, corporate secretarial affairs and investor relations. He has over 29 years of experience in the fields of financial, business, acquisition and post-acquisition management. Prior to joining the Group, Mr. Tan held various senior management positions in a number of multinational corporations. From 1999 to 2002, Mr. Tan was the senior vice president of the China, Mongolia and North Korea regions and Head of Information and Trading Systems of Reuters China. Prior to that, he was the managing director of a Reuters Hong Kong subsidiary, AFE Computer Services Limited (a major domestic equity and financial information services company branded under the Stock Market Channel), and a director of its Australia subsidiary, Infocast Pty Limited. Mr. Tan was also the Reuters East Asia regional finance manager. Mr. Tan is a member of the Chartered Institute of Management Accountants in the United Kingdom.

Non-executive Directors

Mr. LIM Meng Ann (林明安), aged 43, is a non-executive Director, Chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Lim joined the Group in July 2003. Mr. Lim is the senior vice president of, and is responsible for the investment activities in Greater China for GIC Special Investments Pte. Ltd., the private equity arm of Government of Singapore Investment Corporation Pte. Ltd., which he joined in 1997. Prior to that, he was an investment officer of International Finance Corporation, the private sector investment arm of the World Bank group, from 1993 to 1997. Mr. Lim holds a B.Eng degree (first class honours) from University College of London and a M.B.A. degree from University of Strathclyde. He is also a Chartered Financial Analyst.

Mr. Stuart SCHONBERGER, aged 48, is a non-executive Director and a member of the Audit Committee. Mr. Schonberger joined the Group in January 2003. Mr. Schonberger is a managing director of CDH China Management Company Limited, the management company for CDH China Fund, L.P., which is a private equity fund focused on investments in the PRC. Prior to joining CDH China Management Company Limited, Mr. Schonberger worked in the private equity group of China International Capital Corporation from 1998 to 2002. Prior to that, Mr. Schonberger worked for the First National Bank of Chicago in New York City. Mr. Schonberger received his M.B.A. degree from New York University's Graduate School of Business and B.A. degree from Wesleyan University. He is currently a director of GEM Services Inc. and eBIS Company Limited.

Mr. FONG Ching, Eddy (方正), aged 60, joined the Group in June 2004 as a non-executive Director and resigned on 20 October 2006 following his appointment as the Chairman of the Securities and Futures Commission of Hong Kong. He is a certified public accountant and was formerly a senior partner of PricewaterhouseCoopers, an international accounting firm. Apart from pursuing his professional career, Mr. Fong is active in public and community services in Hong Kong. He was appointed as a Justice of the Peace in 1996 and awarded Silver Bauhinia Star medal by the Hong Kong Government in 2000. Mr. Fong acted as an independent non-executive director of a number of public companies listed on the Hong Kong Stock Exchange. Mr. Fong graduated from the University of Kent in the United Kingdom and was also conferred as Honorary Doctor of Civil Law.

Independent non-executive Directors

Mr. KOO Fook Sun, Louis (顧福身), aged 50, is an independent non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Mr. Koo joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and the head of corporate finance department of a major international bank, a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. He also serves currently as an independent non-executive director of Weichai Power Company Limited, Midland Holdings Limited, Good Friend International Holdings Inc., China Communications Construction Company Limited and Xingda International Holdings Limited (all of which are listed on the Main Board of the Hong Kong Stock Exchange), EVI Education Asia Limited and Maxitech International Holdings Limited (both listed on the Growth Enterprise Market of the Hong Kong Stock Exchange). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Ms. WANG Ya Fei, Jane (王亞非), aged 51, is an independent non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Ms. Wang joined the Group in January 2003. Ms. Wang has 16 years of experience in management and corporate finance matters. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from the University of Lancaster in the United Kingdom.

Mr. CHAN Chung Bun, Bunny (陳振彬), aged 49, is an independent non-executive Director. Mr. Chan joined the Group in June 2004. Mr. Chan has more than 25 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Mr. Chan is active in community affairs. He is currently the chairman of Kwun Tong District Council. Mr. Chan was appointed as Justice of Peace in 2002. He took up chairmanship of the Pok Oi Hospital Board of Directors in 2003. In 2004, Mr. Chan was awarded the Bronze Bauhinia Star medal by the Hong Kong Government.

SENIOR MANAGEMENT

Business Divisions

Mr. GUO Jian Xin (郭建新), aged 37, is the Chief Operating Officer. Mr. Guo joined the Group in October 1997. Mr. Guo is primarily responsible for the overall operation management of the Group and the marketing, products, sales and operation systems of LI-NING brand to ensure prompt and effective implementation of the Company's strategies. Mr. Guo has over 8 years of experience in logistics and procurement management. Mr. Guo graduated from South China Normal University (華南師範大學) majoring in mathematics.

Mr. XU Wei Jun (徐偉軍), aged 38, is the Chief Marketing Officer. Mr. Xu joined the Group in August 2001. Mr. Xu is primarily responsible for propelling the application of management procedures, tools and standards relating to integrated sales and marketing, and improvement of the integration of products, sports and retail marketing under the brand-oriented concept. Prior to joining the Group, he worked in the PRC subsidiaries of various multinational consumer goods companies. He holds a bachelor's degree from Zhongshan University (中山大學).

Mr. HU Nan (胡南), aged 42, is the Deputy General Manager of sales of LI-NING brand. Mr. Hu joined the Group in March 1993. Mr. Hu is primarily responsible for the formulation and implementation of the nationwide sales plan of LI-NING brand, overall operation management of the sales subsidiaries, overall development of the Group's sales channels as well as formulation and execution of customer development strategies. Mr. Hu has over 10 years of experience in sales management. He graduated from Anhui University (安徽大學), majoring in Chinese Language. He also graduated at the Department of Humane Sociology of Sports at Huazhong Normal University (華中師範大學) in November 2006.

Mr. WU Xian Yong (伍賢勇), aged 35, is the Deputy General Manager of the footwear products and apparel products of LI-NING brand. Mr. Wu joined the Group in February 2004. Mr. Wu is primarily responsible for the planning and management of the LI-NING branded products, including product planning, R&D and design. Mr. Wu has over 10 years of experience in marketing and brand management. Prior to joining the Group, he held various positions in various PRC subsidiaries of a multinational consumer goods company. He has obtained a bachelor's degree from Xi'an Jiao Tong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).

Mr. WU Wei Guo (吳偉國), aged 47, is the Deputy General Manager of marketing of LI-NING brand. Mr. Wu joined the Group in January 2005. Mr. Wu is primarily responsible for the branding, marketing and product strategies of LI-NING brand. Prior to joining the Group, Mr. Wu worked in the PRC subsidiaries of various multinational companies and has extensive experience in marketing and product management. He has a bachelor's degree in business administration from University of Wisconsin of the United States.

Mr. DONG Jun (董俊), aged 39, is the Deputy General Manager of operations of LI-NING brand. Mr. Dong joined the Group in December 2002. Mr. Dong is primarily responsible for the purchase, manufacturing, quality control and logistics management of the LI-NING branded products. Prior to joining the Group, he worked in a number of local and overseas large-scale manufacturing enterprises and has over 15 years of experience in management of leading manufacturing enterprises and 6 years of enterprise resources planning counselling experience. Mr. Dong graduated from the Faculty of Materials at Central South University of Technology (中南工業大學) with a bachelor's degree in Metallic Science.

Mr. LIU Da Jun (劉達君), aged 38, is the General Manager of AIGLE brand. Mr. Liu joined the Group in August 2005. He is primarily responsible for the overall operation management of AIGLE brand. Prior to joining the Group, Mr. Liu held senior management positions in the PRC subsidiaries of various multinational companies and has over 10 years of experience in marketing and product promotion management. Mr. Liu graduated from Dan Jiang University (淡江大學) with a bachelor's degree in statistics. He is currently studying an executive M.B.A. program of China Europe International Business School (中歐國際工商學院).

Functional Divisions

Mr. ZHANG Hui (張輝), aged 36, is the Director of Strategic Development. Mr. Zhang joined the Group in November 2000. Mr. Zhang is primarily responsible for the strategic planning as well as formulating and monitoring the establishment of knowledge management system of the Group. Mr. Zhang holds a bachelor's degree from Financial and Banking Institute of China (中國金融學院). He graduated from Tsinghua University (清華大學) with a master's degree in international business management.

Ms. DAI Qian (戴倩), aged 35, is the Director of Human Resources. Ms. Dai joined the Group in June 1997. Ms. Dai is primarily responsible for establishing and improving the strategic human resources system, employees cultivation system, compensation and benefit system, legal affairs system, and personnel administration and management. She has over 9 years of experience in human resources management and administration. Ms. Dai holds a bachelor's degree from the Beijing University of Science and Technology (北京科技大學) and a master's degree in international business management from Renmin University of China (中國人民大學).

Mr. ZHANG Jun (張峻), aged 38, is the Director of Information Technology. He joined the Group in July 2005. Mr. Zhang is primarily responsible for building up the information technology system of the Group, including strategic planning, project implementation, information operation and resource management. Prior to joining the Group, he worked in a reputable information technology group in the PRC. Mr. Zhang holds a bachelor's degree from Beijing University of Posts and Telecommunications (北京郵電大學), and is currently studying an executive M.B.A. course of Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. Silvio CHAN (陳仲輝), aged 47, is the Executive Creative Director. Mr. Chan joined the Group in March 2006. Mr. Chan is primarily responsible for providing insight into the global trends and sports culture, establishing and formulating the design direction, design language, harmonisation and standardisation of LI-NING brand and other brands of the Group in order to establish a unique and distinctive brand image. Mr. Chan has been awarded various design awards. He holds a master degree of fashion design from the Royal College of Art in the United Kingdom.

Corporate Social Responsibilities

CORPORATE CULTURE

Establishment and promotion of an excellent corporate culture has become one of the indispensable elements for the Group to sustain a rapid development in the future. We believe an excellent corporate culture will uplift the core competitiveness of the Group which in turn will enhance the mutual development of the Group and its employees.

We continued to adopt the idea of "Excellent Management with Athletic Spirit" as the root concept of our corporate culture in 2006. Apart from retaining the distinctive corporate culture activities, including the Sports Day and the 15 staff sports clubs, we also continued to seek recognition from the employees, both new and existing, on our corporate culture by way of organising various cultural promotional activities and training activities, so as to align staff behaviour with the corporate culture. In line with the development strategies, the Group organised the theme activity, "Let's Start Again" (從頭再來) in its 16th Anniversary in which the Group's Chief Executive Officer had a real-time conversation with employees nationwide via internet conference which allowed employees to better understand the directions and strategies of the future development of the Group, and to further boost the morale and unity of the employees.

To promote the corporate culture of the Group in a more extensive and effective manner and to let each employee and business partner to have a thorough understanding of our corporate culture, the Group published a corporate culture handbook in 2003, launched the internal publication "Sports Ethics" (《運動品格》) in early 2004 and established the Group's intranet in 2006. These enable the interaction between the theme cultural activities and the internal media, resulting in the promotion of corporate culture by various communication modes.

In the meantime, to encourage good conduct and behaviour which are in line with the Group's corporate cultural value, the Group has adopted the Staff Conduct Motivation and Management Policy (《員工行為激勵與管理制度》) to reward and motivate outstanding and contributory employees on a regular basis. This policy has achieved satisfactory results in promoting the cultural sentiment of the Group.

We will continue to uphold the promotion of the corporate culture which aligns with our strategic planning in order to assure sustainable and rapid expansion of the Group.

HUMAN RESOURCES

Talent is an invaluable asset and an important element for sustainable growth of the Group. In 2006, the Group continued to strengthen and accomplish human resources management. It explored innovations in areas of staff employment, human resources planning, remunerations and benefits, working environment, and learning and development system. This has achieved a favourable outcome in the selection, utilisation, training and retention of employees, and has assured sustainable and rapid development of the Group in the future.

Employees and Remunerations

As at 31 December 2006, the Group had about 2,365 employees.

The Group has adopted the digital Key Performance Indicators (KPI) as the core assessment and motivation system which quantifies and breaks down the strategic targets of the Group to the individual level. Individual remuneration is divided into basic salary and performance-based remuneration, in which the corporate, departmental and individual performances are linked up effectively. This policy aims to award staff with outstanding performance. It does not only motivate the enthusiasm and creativity of the employees, but also facilitate the strategic consistency of the Group as a whole.

The Group has been collaborating with international consultants such as Mercer, Towers Perrin and Hewitt in retaining and motivating employees. From evaluation of the value of each position to the design of a long-term motivation program, the most advanced international devices and methodologies are applied. In addition, the Company pays close attention to market changes to maintain the competitiveness of our remuneration package for the purpose of attracting and motivating employees.

In order to further retain and motivate key employees, the Company adopted the Restricted Share Award Scheme in 2006 in addition to its share option schemes. As one of the essential components of long-term motivation, the Restricted Share Award Scheme is an effective measure to retain and motivate our employees.

Apart from competitive remunerations and benefits, the Group is committed to providing a good working environment for its employees. During the year, the Group launched the "5S" program (Spick-and-span, Shakedown, Sanitary, Sweeping and Self-discipline) in order to provide a comfortable working environment for the employees and to improve efficiency of operation in the workplace.

Learning and Development

To conform with the Group's development strategies, in 2006, we have developed a comprehensive training system in order to strengthen the capabilities of employees, including a leadership training program for managers, an all-around workplace skills program for employees and a professional skills program for professionals.

The leadership training program was implemented by way of workshops, which mainly focused on strategic thinking, influencing power and staff development abilities of managers. Two series with 11 training sections were provided to the staff ranked from senior to general managerial levels throughout the year, with nearly 180 members of the management being trained.

The all-around workplace skills program and the professional skills program were implemented in the form of public courses and e-Learning. Employees can freely apply for courses according to their actual needs to enhance their own workplace skills and professional skills. During the year, a total of 33 all-around workplace skills sections and professional skills sections were provided to 650 employees, with an aggregate of 26,910 training hours and an average training time per person of approximately 41.4 hours.

During the year, the Company joined hands with Cheung Kong Graduate School of Business (長江商學院) to deliver a Mini-EMBA program for 25 department managers with outstanding performance and 5 top distributors. By studying the classic Mini-EMBA modules and the comparable cases in the industry, participants have been furnished with a comprehensive business administration knowledge system, which has broadened the horizons and strengthened the strategic thinking ability of the middle-level management which in turn improving the overall quality of the management.

SOCIAL RESPONSIBILITIES

In the course of its relentless pursuit for brand excellence, the Group has committed to undertake various social responsibilities and obligations as a corporate member of the community by contributing to the society.

Charity Events

The Company further deployed resources on welfare activities in areas of health, sports and education in 2006. Charitable activities such as "Lifeline Express" (健康快車), "Li Ning Hope Primary School" (李寧希望小學) and "China Sports Foundation" (中華體育基金會) have become the Group's annual events. During the year, the Group arranged its employees to take part in the opening ceremony of "Li Ning Hope Primary School" (李寧希望小學), demonstrating their social responsibilities.

During the year, the Group sponsored the charity event of Basketball Bus Tour jointly organised by cultural celebrities, sports stars, CCTV hosts and the media. Through such event, funds were raised for the handicapped through basketball charity competitions and variety shows throughout the country. These activities have promoted a positive culture and spirit of sports and encouraged the handicapped to live with courage and persistence.

In 2006, the Group initiated a charitable training programme named "Let's Play Sports Together" (一起運動), for sports teachers in rural areas in order to promote the development of sports education of primary and secondary schools in poverty areas, and to improve the standard of sports education and professional skills of sports teachers in rural areas. These enable the children to enjoy the rights to sports and happiness from sports. "Let's Play Sports Together" (一起運動) provides free training to the designated areas under the program. The first stage of the program would last for three years from 2006 to 2008. It is expected that 1,000 sports teachers will be trained up upon completion of the first stage in 2008. We believe that one million primary and secondary students will benefit from this program. The launch of the program has aroused extensive public concern and positive feedback and the Company was awarded the "Special Charity Award" in the "2006 Corporate Social Responsibility Survey in China".

Special Funds for the National Textile Industry

In order to support and promote structural adjustment of the textile industry in the PRC as well as the change in means of growth in foreign trade, the PRC government allocates special funds to support enterprises' innovation of clothing technology. In 2006, the Company applied for this special fund and followed by approval of the Ministry of Finance and the National Development and Reform Committee, the Company has been granted special funds of RMB1,500,000 which will be utilised in the R&D, innovation and applied research of the AT apparel technology platform. The Group will work closely with top research organisations on sports and human science; to carry out analysis and research on materials and craftsmanship in order to satisfy the highest sports equipment requirements of sportsmen; and to establish and improve the AT apparel technology platform so as to further promote the development of sports products. The grant of this special fund by the government has reflected that the Company is recognised by the government and the society as a stable and innovative company. The Group will also take this opportunity to contribute to the development of the textile industry of the PRC.

THE WAY FORWARD

In 2006, the Company and the other 24 outstanding corporations were granted "2006 The Best Enterprise's Public Image Award" jointly organised by the Enterprise Research Institute affiliated with the Development Research Center of the State Council, business.sohu.com, China Credit Research Center of Peking University and Guanghua media. In addition, the Company has also been awarded "2006 CCTV The Best Employer" in the annual survey of employers organised by CCTV for the two consecutive years, which clearly demonstrates the market recognition of our care to the well-being of employees, strong social responsibilities as well as the extraordinary performance achieved by us during the year.

In the course of future growth and development, we endeavour to undertake responsibilities and obligations as a corporate member of the community by contributing to the social progress and development with more initiatives.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel and accessories sold mainly in the PRC under the Group's own LI-NING brand. The Group also manufactures, markets, distributes and sells outdoor sports products which bear the AIGLE trademarks in the PRC through a jointly controlled entity.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2006 are set out in notes 10 and 11, respectively, to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out in the Consolidated Income Statement on page 72 of this annual report.

The Board has recommended the payment of a final dividend of RMB7.64 cents per Share in respect of the year ended 31 December 2006. The final dividend will be paid 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 11 May 2007, being the date of the annual general meeting on which the final dividend is proposed to the Shareholders for approval. Together with the interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per Share paid on 29 September 2006, the total dividend per Share for the year ended 31 December 2006 amounts to RMB11.44 cents.

Subject to the approval of Shareholders at the forthcoming annual general meeting, the final dividend will be paid on or about 21 May 2007 to Shareholders whose names appear on the register of members of the Company on 11 May 2007. The register of members of the Company will be closed from Tuesday, 8 May 2007 to Friday, 11 May 2007 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 May 2007.

RESERVES

As at 31 December 2006, distributable reserves of the Company amounted to RMB396,762,000. Movements in reserves of the Group during the year are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales and purchases of the Group attributable to its major customers and suppliers respectively in the financial year were as follows:

	Year ended 31 December	
	2006	2005
	% of total turnover	% of total turnover
Five largest customers	**22.0**	16.6
The largest customer	**8.1**	5.6
	% of total purchases	% of total purchases
Five largest suppliers	**43.6**	40.8
The largest supplier	**15.0**	14.2

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge and belief of the Directors, none of the Directors, their associates or any Shareholder holding more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest customers or suppliers as disclosed above.

BANK LOANS AND OTHER BORROWINGS

There were no bank loans and other borrowings of the Company and the Group as at 31 December 2006.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB200,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in the Group's property, plant and equipment during the year are set out in note 6 to the consolidated financial statements.

ORDINARY SHARES

Movements in ordinary shares of the Company during the year are set out in note 15 to the consolidated financial statements.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Li Ning
Mr. Zhang Zhi Yong
Mr. Tan Wee Seng *(re-elected on 12 May 2006)*

Non-executive Directors

Mr. Lim Meng Ann
Mr. Stuart Schonberger
Mr. Fong Ching, Eddy *(re-elected on 12 May 2006 and resigned on 20 October 2006)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei, Jane *(re-elected on 12 May 2006)*
Mr. Chan Chung Bun, Bunny

Mr. Fong Ching, Eddy resigned as a non-executive Director of the Company on 20 October 2006 in order to avoid any possible conflict of interest for his appointment as the chairman of the Securities and Futures Commission of Hong Kong.

In accordance with article 87 of the Company's articles of association and the Code on Corporate Governance Practices of the Listing Rules, Mr. Li Ning, Mr. Zhang Zhi Yong, Mr. Lim Meng Ann and Mr. Koo Fook Sun, Louis shall retire from the office and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and senior management are set out on pages 48 to 51 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or its subsidiaries within one year without payment to compensation (other than statutory compensation).

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

PENSION SCHEMES

In the PRC, the Group contributes on a monthly basis to various defined contribution retirement benefit plans established and operated by relevant Chinese municipal and provincial governments (the "Pension Schemes"). The municipal and provincial governments have undertaken to assume the obligations to pay all the retirement benefits accrued to employees under these Pension Schemes upon their retirement. The Group has no further obligation for payment of post-retirement benefits to employees beyond the contributions made by the Group to these Pension Schemes.

The Group also participates in the provident fund plans mandated by the Hong Kong Government (the "MPF Schemes") which is a defined contribution retirement benefit plan. Contributions to these plans are expensed as incurred.

None of the Pension Schemes or the MPF Schemes has provision for the forfeiture of contributions made to the provident fund.

The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2006 were RMB15,143,000.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

SHARE SCHEMES

Share Purchase Scheme

As part of the reorganisation of the Group prior to the listing of Shares on the Hong Kong Stock Exchange in June 2004, Mr. Li Ning, a substantial shareholder and the Chairman of the Company has, through Alpha Talent, established the Share Purchase Scheme. Under the Share Purchase Scheme, Mr. Li Ning has transferred 35,250,000 Shares beneficially owned by him to Alpha Talent. The objective of the Share Purchase Scheme is to grant rights to purchase Shares beneficially owned by Mr. Li Ning through Alpha Talent to key individuals who have contributed to the economic achievement of the Group.

The Share Purchase Scheme was adopted by Alpha Talent on 5 June 2004 and shall be valid and effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent shall determine, among other things, the directors and employees of the Group who shall be selected to receive the options, the exercise price, the terms and conditions of the options.

Movements and valuation of the share options granted under the Share Purchase Scheme for the year ended 31 December 2006 are set out in note 27 to the consolidated financial statements.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme for the purpose of giving the participants an opportunity to have a personal stake in the Company and recognising the contribution of, and providing an incentive to directors and eligible employees of the Group who, in the sole discretion of the Board, have contributed or will contribute to the success of the Company. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. Options to subscribe for 16,219,000 Shares were granted to certain Directors and eligible employees on 5 June 2004 and the exercise price per Share is HK$1.8275, being 15% discount to the price for each Share upon the initial public offering of Shares on the Hong Kong Stock Exchange in June 2004. HK$1 was payable by the grantee who accepted the grant of an option. No further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme upon the listing of Shares on the Hong Kong Stock Exchange on 28 June 2004. Movements of the share options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2006 are as follows:

	Date of grant	Exercise price per Share HK$	Number of share options as at 01/01/2006	exercised during the year	lapsed during the year	as at 31/12/2006	Exercise period (Note 4)
Executive Directors							
Zhang Zhi Yong	05/06/2004	1.8275	1,597,000	(330,000) (Note 1)	–	1,267,000	28/06/2005 – 05/06/2010
Tan Wee Seng	05/06/2004	1.8275	1,212,000	(535,000) (Note 2)	–	677,000	28/06/2005 – 05/06/2010
Employees of the Group							
In aggregate	05/06/2004	1.8275	8,703,000	(2,779,334) (Note 3)	(622,666)	5,301,000	28/06/2005 – 05/06/2010
			11,512,000	(3,644,334)	(622,666)	7,245,000	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$8.74.
2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$7.87.
3. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$8.59.
4. Options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of 28 June 2004, being date of the listing of Shares on the Hong Kong Stock Exchange, starting from the first anniversary until the third.
5. No options granted were cancelled during year ended 31 December 2006.

Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme on 5 June 2004. The Post-IPO Share Option Scheme will remain in force for a period of 10 years from 5 June 2004.

The purpose of the Post-IPO Share Option Scheme is to provide the Group with a means of retaining, incentivising, rewarding, remunerating, compensating high-calibre individuals who have demonstrated high level of performance, loyalty and dedication and have made valuable contribution towards the success of the Group. Eligible participants are directors, employees, officers, agents, consultants or representatives of any member of the Group who, as the Board may determine in its absolute discretion, have made valuable contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge in the industry and other relevant factors.

Participants of the Post-IPO Share Option Scheme are required to pay HK$1 for each option granted upon acceptance of the grant. The exercise price of the option is determined by the Board and being not less than the highest of: (a) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the Shares.

The maximum number of Shares available for issue upon exercise of all options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes in aggregate shall not exceed 30% of the number of issued shares of the Company from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be available for issue upon exercise of all options to be granted under the Post-IPO Share Option Scheme, together with all options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the nominal amount of all the issued shares of the Company as at 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange. Therefore, the Company may grant options in respect of up to 98,606,200 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 98,606,200 Shares from time to time) to eligible participants under the Post-IPO Share Option Scheme. As at the date of this report, the total number of Shares available for issue under the scheme, save for those granted and yet to be exercised, amounted to 80,925,201 Shares, representing 7.84% of the issued share capital of the Company as at the date of this report. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue.

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than 10 years from the date of grant. Any Share allotted and issued on the exercise of options will rank pari passu with other shares of the Company in issue on the date of allotment.

Movements of the share options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2006 are as follows:

	Date of grant	**Exercise price per Share** HK$	**Number of share options** as at 01/01/2006	granted during the year	exercised during the year	lapsed during the year	as at 31/12/2006	**Exercise period** (Note 8)
Executive Directors								
Zhang Zhi Yong	04/07/2005	3.685	832,000	–	(50,000) (Note 1)	–	782,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	312,000 (Note 5)	–	–	312,000	04/09/2007 – 04/09/2012
Tan Wee Seng	04/07/2005	3.685	728,000	–	–	–	728,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	172,000 (Note 5)	–	–	172,000	04/09/2007 – 04/09/2012
Non-executive Directors								
Lim Meng Ann	04/07/2005	3.685	246,000	–	–	–	246,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	90,000 (Note 5)	–	–	90,000	04/09/2007 – 04/09/2012
Stuart Schonberger	04/07/2005	3.685	246,000	–	–	–	246,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	90,000 (Note 5)	–	–	90,000	04/09/2007 – 04/09/2012
Fong Ching, Eddy	04/07/2005	3.685	246,000	–	(82,000) (Note 2)	(164,000)	–	04/07/2006 – 04/07/2011

	Date of grant	Exercise price per Share HK$	Number of share options as at 01/01/2006	granted during the year	exercised during the year	lapsed during the year	as at 31/12/2006	Exercise period (Note 8)
Independent non-executive Directors								
Koo Fook Sun, Louis	04/07/2005	3.685	246,000	–	–	–	246,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	90,000 (Note 5)	–	–	90,000	04/09/2007 – 04/09/2012
Wang Ya Fei, Jane	04/07/2005	3.685	246,000	–	–	–	246,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	–	90,000	–	–	90,000	04/09/2007 – 04/09/2012
Chan Chung Bun, Bunny	04/09/2006	8.83	–	90,000 (Note 5)	–	–	90,000	04/09/2007 – 04/09/2012
Employees of the Group								
In aggregate	04/07/2005	3.685	12,715,000	–	(2,254,000) (Note 3)	(1,306,001)	9,154,999	04/07/2006 – 04/07/2011
In aggregate	03/01/2006	5.50	–	360,000 (Note 4)	–	–	360,000	03/01/2007 – 03/01/2012
In aggregate	04/09/2006	8.83	–	2,094,000 (Note 5)	–	(132,000)	1,962,000	04/09/2007 – 04/09/2012
In aggregate	11/10/2006	8.95	–	90,000 (Note 6)	–	–	90,000	(Note 9)
Other participants								
In aggregate	20/11/2006	9.84	–	300,000 (Note 7)	–	–	300,000	(Note 10)
			15,505,000	3,778,000	(2,386,000)	(1,602,001)	15,294,999	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$10.58.
2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$9.20.
3. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$9.13.
4. The closing price per Share immediately before the date of grant is HK$5.50.
5. The closing price per Share immediately before the date of grant is HK$8.77.
6. The closing price per Share immediately before the date of grant is HK$8.98.
7. The closing price per Share immediately before the date of grant is HK$9.59.
8. Unless otherwise stated in notes 9 and 10, options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of the date of grant starting from the first anniversary date until the third.

9. The options are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
1/3	22/03/2007	22/03/2007 – 11/10/2012
1/3	22/03/2008	22/03/2008 – 11/10/2012
1/3	22/03/2009	22/03/2009 – 11/10/2012

10. The options are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
1/3	26/07/2007	26/07/2007 – 20/11/2012
1/3	26/07/2008	26/07/2008 – 20/11/2012
1/3	26/07/2009	26/07/2009 – 20/11/2012

11. No options granted were cancelled during year ended 31 December 2006.

Valuation of the share options granted during the year ended 31 December 2006 under the Post-IPO Share Option Scheme is set out in note 27 to the consolidated financial statements.

Restricted Share Award Scheme

On 14 July 2006 ("Adoption Date"), the Board adopted the Restricted Share Award Scheme which any individual being a director, employee, officer, agent or consultant of the Company or its subsidiaries is entitled to participate in. The purpose of the scheme is to facilitate the Company's objectives of attracting new and motivating existing talents and retaining both in the Company. The scheme shall be valid for a term of 10 years from the Adoption Date and is administered by the administrative committee and trustee of the scheme.

Pursuant to the Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of Shares to be held upon trust for the benefits of the selected participants. Shares granted to the selected participants are restricted shares which will become unrestricted upon vesting at the end of each vesting period. Restricted shares granted under the scheme are subject to a vesting scale in tranches of one-third on every anniversary date of the date of grant starting from the first anniversary date until the third. No Shares will be granted under the scheme if the number of shares granted at any time during the scheme period has exceeded 2% of 1,027,795,001 issued shares of the Company as at the Adoption Date (i.e., 20,555,900 Shares). Apart from the expenses incurred by the trustee attributable or payable in connection with the vesting of the restricted shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

During the year ended 31 December 2006, the Board granted 763,000 Shares pursuant to the Restricted Share Award Scheme, representing 0.07% of the issued share capital as at the Adoption Date, to eligible participants. The total payout, including related expenses, amounted to RMB6,367,000. As at 31 December 2006, details of the granted Shares under the scheme are as follows:

		Number of Shares				
Date of grant	**Fair value per Share** HK$	**as at 01/01/2006**	**granted during the year**	**lapsed during the year**	**as at 31/12/2006**	**Vesting period**
22/09/2006	9.01	–	709,000	(5,800)	703,200	22/09/2007 – 22/09/2009
04/12/2006	10.26	–	54,000	–	54,000	04/12/2007 – 04/12/2009
		–	763,000	(5,800)	757,200	

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	**Number of Shares/underlying Shares held**	Note	**Capacity**	**% of issued share capital***
Li Ning	368,287,250 (long position)	1	Interests of controlled corporations	35.68
	12,627,000 (short position)	1(c)	Interests of controlled corporation	1.22
Zhang Zhi Yong	11,361,000 (long position)	2	Personal	1.10
Tan Wee Seng	1,577,000 (long position)	3	Personal	0.15
Lim Meng Ann	336,000 (long position)	4	Personal	0.03
Stuart Schonberger	336,000 (long position)	4	Personal	0.03
Koo Fook Sun, Louis	336,000 (long position)	4	Personal	0.03
Wang Ya Fei, Jane	336,000 (long position)	4	Personal	0.03
Chan Chung Bun, Bunny	90,000 (long position)	5	Personal	0.01

* *The percentage has been calculated based on 1,032,197,001 Shares in issue as at 31 December 2006.*

Notes:

1. Mr. Li Ning is taken to be interested in an aggregate of 368,287,250 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management Limited ("Dragon City") and Alpha Talent, respectively, as follows:

   (a) 203,374,000 Shares are held by Victory Mind in which 62.106% is owned by Mr. Li Ning and 37.894% by Mr. Li Chun, the brother of Mr. Li Ning. Mr. Li Ning is taken to be interested in the 203,374,000 Shares held by Victory Mind. Mr. Li Ning is a director of Victory Mind.

   (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Ning and Mr. Li Chun. Mr. Li Ning is the settler of the Palm Trust and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Ning is a director of Dragon City.

   (c) 14,913,250 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is taken to be interested in the 14,913,250 Shares held by Alpha Talent. Mr. Li Ning is a director of Alpha Talent.

   Mr. Li Ning is taken to have a short position in 12,627,000 Shares, among the total of 14,913,250 Shares held by Alpha Talent. When the Share Purchase Scheme was first set up in June 2004, 35,250,000 Shares were held by Alpha Talent. As at 31 December 2006, Alpha Talent had granted options to purchase 34,332,500 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,368,750 Shares have been lapsed due to resignation of employees and options to purchase 20,336,750 Shares have been exercised. The total number of outstanding options as at 31 December 2006 is 12,627,000 Shares.

2. Mr. Zhang Zhi Yong is interested in 3,000,000 Shares and is also taken to be beneficially interested as a grantee of options to purchase 6,000,000 Shares at an exercise price of HK$0.43 per Share under the Share Purchase Scheme; options to subscribe for 1,267,000 Shares at an exercise price of HK$1.8275 per Share under the Pre-IPO Share Option Scheme; and options to subscribe for 782,000 Shares at an exercise price of HK$3.685 per Share and 312,000 Shares at an exercise price of HK$8.83 per Share under the Post-IPO Share Option Scheme.

3. Mr. Tan Wee Seng is taken to be interested as a grantee of options to subscribe for 677,000 Shares at an exercise price of HK$1.8275 per Share under the Pre-IPO Share Option Scheme; and options to subscribe for 728,000 Shares at an exercise price of HK$3.685 per Share and 172,000 Shares at an exercise price of HK$8.83 per Share under the Post-IPO Share Option Scheme.

4. The respective Director is taken to be interested as a grantee of options to subscribe for 246,000 Shares at an exercise price of HK$3.685 per Share and 90,000 Shares at an exercise price of HK$8.83 per Share under the Post-IPO Share Option Scheme.

5. The Director is taken to be interested as a grantee of options to subscribe for 90,000 Shares at an exercise price of HK$8.83 per Share under the Post-IPO Share Option Scheme.

6. No Shares were granted to the Directors under the Restricted Share Award Scheme for the year ended 31 December 2006.

Save as disclosed above, so far as was known to any Director, as at 31 December 2006, none of the Directors had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the registered referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of shareholder	Number of Shares held	Note	Capacity	% of issued share capital*
Li Ning	368,287,250 (Long position)	1	Interest of controlled corporations	35.68
	12,627,000 (Short position)		Interest of controlled corporation	1.22
Li Chun	353,374,000 (Long position)	2	Interest of controlled corporations	34.24
Victory Mind Assets Limited	203,374,000 (Long position)	2(a)	Beneficial owner	19.70
Dragon City Management Limited	150,000,000 (Long position)	2(b)	Trustee	14.53
Cititrust (Cayman) Limited	150,000,000 (Long position)	2(b)	Trustee	14.53
Tetrad Ventures Pte. Ltd.	103,055,500 (Long position)	3	Beneficial owner	9.98
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	103,055,500 (Long position)	3	Interest of controlled corporation	9.98
GIC Special Investments Pte. Ltd.	103,055,500 (Long position)	3	Interest of controlled corporation	9.98
Government of Singapore Investment Corporation Pte. Ltd.	103,055,500 (Long position)	3	Interest of controlled corporation	9.98
Minister of Finance (Incorporated)	103,055,500 (Long position)	3	Interest of controlled corporation	9.98
Fidelity International Limited	62,309,500 (Long position)		Investment manager	6.04

* *The percentage has been calculated based on 1,032,197,001 Shares in issue as at 31 December 2006.*

Notes:

1. See note 1 under "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".

2. Mr. Li Chun is taken to be interested in an aggregate of 353,374,000 Shares held by Victory Mind and Dragon City, respectively, as follows:

   (a) 203,374,000 Shares are held by Victory Mind in which 37.894% is owned by Mr. Li Chun and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Mr. Li Chun is taken to be interested in the 203,374,000 Shares held by Victory Mind; and

   (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Chun and Mr. Li Ning. Mr. Li Chun is the settler of the Gingko Trust and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City.

3. 103,055,500 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated).

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 Decmeber 2006, the Group had the following transactions which constituted continuing connected transactions under the Listing Rules:

1. *Sports organising and promotion framework agreement ("Sports Organising Agreement") between Beijing Li Ning and 北京一動體育發展有限公司 (Beijing Edo Sports Development Co., Ltd.) ("Beijing Edo Sports")*

   Beijing Edo Sports is a limited company established in the PRC, in which 80% is owned by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.) (" Shanghai Ning Sheng"). By reason of the interests of Mr. Li Ning (the Chairman and a substantial shareholder of the Company) and his family members in Shanghai Ning Sheng, Beijing Edo Sports is an associate of Mr. Li Ning and, hence, a connected person of the Company for the purpose of the Listing Rules .

   Beijing Li Ning entered into the Sports Organising Agreement on 1 January 2004 with Beijing Edo Sports for a term of three years commenced from 1 January 2004, under which Beijing Li Ning has engaged Beijing Edo Sports to carry out joint promotion of sports events in return for organising fees payable to Beijing Edo Sports.

   Payments from Beijing Li Ning to Beijing Edo Sports for the year ended 31 December 2006 amounted to an aggregate of RMB3,729,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Company's listing prospectus dated 15 June 2004 ("Listing Prospectus").

2. *Non-exclusive distributorship arrangement of LI-NING branded products by 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Co., Ltd.) ("Dong Gan Jing Ji")*

   Dong Gan Jing Ji is a limited liability company established in the PRC, which is owned as to 60% by Mr. Chen Yi Liang and 40% by Mr. Chen Yi Yong. Both of Mr. Chen Yi Liang and Mr. Chen Yi Yong are brothers of Mr. Chen Yi Hong, an executive Director of the Company before his resignation on 1 September 2005. Dong Gan Jing Ji is an associate of Mr. Chen Yi Hong and, hence, a connected person of the Company until 1 September 2006 for the purpose of the Listing Rules.

   On 1 January 2004, Beijing Li Ning (as supplier) and Dong Gan Jing Ji (as non-exclusive distributor) entered into a non-exclusive distributorship agreement for the sale of LI-NING branded products at a retail shop in Beijing for a term of three years commenced from 1 January 2004.

Transaction value for the distribution of products between Beijing Li Ning and Dong Gan Jing Ji for the period from 1 January 2006 to 31 August 2006 amounted to an aggregate of RMB556,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

Disclosure requirements under the Listing Rules have been complied with in respect of the above continuing connected transactions. The Directors, including the independent non-executive Directors, have reviewed the above continuing connected transactions took place during the year ended 31 December 2006 and confirmed that these transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the auditors of the Company, has performed certain agreed-upon procedures in respect of the continuing connected transactions made during the year ended 31 December 2006 and reported their findings to the Board that the transactions:

(1) have been approved by the Board of Directors of the Company;

(2) are in accordance with the pricing policies of the Group;

(3) have been entered into in accordance with the terms and conditions under the relevant agreements governing the transactions; and

(4) have not exceeded the relevant annual cap as disclosed in the Listing Prospectus.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company had not redeemed any of its listed shares during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries except for the Restricted Share Award Scheme Trust, had purchased or sold any of the Company's shares during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2006 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Throughout the year under review, the Company has complied with all the code provisions and most of the recommended best practices set out in the Code on Corporate Governance Practices of the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 32 to 41 of this annual report.

AUDITORS

PricewaterhouseCoopers will retire as auditors of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
LI Ning
Chairman

Hong Kong, 20 March 2007

Independent Auditor's Report

To the shareholders of **Li Ning Company Limited**
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 109, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2007

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2006**	2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	**156,887**	95,796
Land use rights	7	**25,583**	3,857
Intangible assets	8	**81,551**	9,960
Deposit paid for land use right		**—**	10,002
Deferred income tax assets	20	**12,455**	
		276,476	119,615
Current assets			
Inventories	9	**350,544**	290,617
Accounts and notes receivable	12	**579,143**	373,226
Other receivables and prepayments	13	**109,951**	67,824
Fixed deposits held at banks	14	**10,304**	353,161
Cash and cash equivalents	14	**838,867**	378,368
		1,888,809	1,463,196
Total assets		**2,165,285**	1,582,811
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	15	**109,503**	108,889
Share premium	15	**462,911**	516,381
Shares held for Restricted Share Award Scheme	15	**(6,367)**	
Other reserves	16	**182,484**	159,058
Retained profits	16		
Proposed final dividend		**78,860**	51,308
Other		**572,099**	325,288
		1,399,490	1,160,924
Minority interests		**17,589**	17,372
Total equity		**1,417,079**	1,178,296
LIABILITIES			
Non-current liability			
License fees payable	19	**59,754**	
Current liabilities			
Trade payables	17	**424,460**	214,162
Other payables and accruals	18	**207,281**	161,196
Current income tax liabilities		**45,725**	29,157
License fees payable current portion	19	**10,986**	
		688,452	404,515
Total liabilities		**748,206**	404,515
Total equity and liabilities		**2,165,285**	1,582,811
Net current assets		**1,200,357**	1,058,681
Total assets less current liabilities		**1,476,833**	1,178,296

ZHANG Zhi Yong
Executive Director & Chief Executive Officer

TAN Wee Seng
Executive Director & Chief Financial Officer

The notes on pages 75 to 109 are an integral part of these consolidated financial statements.

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Investment in subsidiaries	10	**391,884**	234,656
Current assets			
Other receivables and prepayments	13	**148**	3,713
Fixed deposits held at banks	14	**10,304**	345,284
Cash and cash equivalents	14	**107,242**	8,837
		117,694	357,834
Total assets		**509,578**	592,490
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	15	**109,503**	108,889
Share premium	15	**462,911**	516,381
Other reserves	16	**25,691**	22,748
Accumulated losses	16	**(91,840)**	(58,992)
Total equity		**506,265**	589,026
LIABILITIES			
Current liabilities			
Other payables and accruals	18	**3,313**	3,464
Total equity and liabilities		**509,578**	592,490

ZHANG Zhi Yong
Executive Director & Chief Executive Officer

TAN Wee Seng
Executive Director & Chief Financial Officer

The notes on pages 75 to 109 are an integral part of this financial statement.

Consolidated Income Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2006	2005
			(Reclassified Note 2.23)
Turnover	5	**3,180,543**	2,450,536
Cost of sales	21	**(1,671,991)**	(1,324,347)
Gross profit		**1,508,552**	1,126,189
Distribution costs	21	**(900,865)**	(683,150)
Administrative expenses	21	**(234,730)**	(204,168)
Other income	22	**29,561**	32,626
Operating profit		**402,518**	271,497
Finance (cost)/income net	24	**(1,365)**	1,954
Profit before income tax		**401,153**	273,451
Income tax expense	25	**(106,090)**	(85,106)
Profit for the year		**295,063**	188,345
Attributable to:			
Equity holders of the Company		**294,846**	186,800
Minority interests		**217**	1,545
		295,063	188,345
Earnings per share for equity holders of the Company (RMB cents)			
Basic	28	**28.65**	18.25
Diluted	28	**28.25**	18.13
Interim dividend and proposed final dividend	26	**117,723**	72,116

The notes on pages 75 to 109 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company	Minority interests	Total equity
Balance as at 1 January 2005		1,010,017	17,208	1,027,225
Profit for the year		186,800	1,545	188,345
Dividends paid	15	(69,402)		(69,402)
Employee share option schemes				
value of services provided	16	27,557		27,557
proceeds from shares issued		5,952		5,952
Disposal of a subsidiary			(1,381)	(1,381)
Balance as at 31 December 2005		1,160,924	17,372	1,178,296
Balance as at 1 January 2006		1,160,924	17,372	1,178,296
Profit for the year		294,846	217	295,063
Dividends paid	15	(88,330)		(88,330)
Employee share option schemes				
value of services provided	16	22,648		22,648
proceeds from shares issued		15,769		15,769
Shares purchased for Restricted Share Award Scheme		(6,367)		(6,367)
Balance as at 31 December 2006		1,399,490	17,589	1,417,079

The notes on pages 75 to 109 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2006	2005
Cash flows from operating activities			
Cash inflow generated from operations	29(a)	**395,367**	206,562
Income tax paid		**(101,977)**	(67,957)
Net cash generated from operating activities		**293,390**	138,605
Cash flows from investing activities			
Purchase of property, plant and equipment		**(97,881)**	(38,546)
Deposit paid for land use right		**—**	(10,002)
Purchase of intangible assets		**(9,582)**	(3,375)
Proceeds from disposals of property, plant and equipment		**2,278**	771
Decrease in fixed deposits at banks		**334,059**	11,152
Interest received		**17,723**	13,047
Net cash outflow from disposal of a subsidiary	29(b)	**(109)**	(14,737)
Net cash generated from/(used in) in investing activities		**246,488**	(41,690)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**15,769**	5,952
Purchase of shares for Restricted Share Award Scheme		**(6,367)**	
Proceeds from borrowings		**—**	50,000
Repayment of borrowings		**—**	(90,000)
Decrease in pledged bank deposits		**—**	66,212
Dividends paid		**(88,270)**	(69,402)
Interest paid		**—**	(1,102)
Net cash used in financing activities		**(78,868)**	(38,340)
Net increase in cash and cash equivalents		**461,010**	58,575
Cash and cash equivalents, at beginning of year		**378,368**	322,568
Exchange losses		**(511)**	(2,775)
Cash and cash equivalents, at end of year		**838,867**	378,368

The notes on pages 75 to 109 are an integral part of these consolidated financial statements.

1. General information

Li Ning Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel 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 Company 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 Stock Exchange of Hong Kong Limited.

These consolidated financial statements were authorised for issue by the Board of Directors on 20 March 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's situations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's situations:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any significant impact on the classification and valuation of the Group's financial instruments;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any significant impact on the consolidated financial statements;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it does not expect there will be any significant impact on the consolidated financial statements; and
- IFRIC 11, IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The interpretation and amendment do not have any significant impact on the consolidated financial statements.

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations;
- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations; and
- IFRIC 12, Service Concession Arrangements. IFRIC 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group does not participate in service concession arrangements, IFRIC 12 is not relevant to the Group's operations.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Joint ventures*

The Group's interests in jointly controlled entities ("JCE") are accounted for by proportionate consolidation. The Group combines its share of the JCE's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the JCE that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until the Group resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investments in JCE are stated at cost less provision for impairment losses. The assets of the JCE are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the functional and the presentation currency of the Company.

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. Income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. All resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment (excluding construction-in-progress) is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the cost less impairment losses of each asset to their residual values over their estimated useful lives as follows:

Buildings	20 – 40 years
Leasehold improvement	2 years or over the lease term, whichever is a shorter period
Mould	2 years
Machinery	10 –18 years
Motor vehicles and office equipment	3 – 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Construction-in-progress represents buildings, plant and/or machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.7 Intangible assets

(a) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised present values of the fixed minimum periodic payments to be made in the subsequent years in respect of the acquisition of the license right.

License rights are amortised using the straight-line method to allocate the cost of licenses over their estimated useful lives.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(c) Trademarks

Expenditures to acquire trademarks are capitalised and amortised using straight line method over the number of years granted by the relevant jurisdiction or 10 years, whichever is a shorter period.

2.8 Impairment of investments in subsidiaries, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

2. Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

As at 31 December 2005 and 2006, the Group's financial assets comprise loans and receivables and held-to-maturity investments (fixed deposits held at banks).

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included within accounts and notes receivables and other receivables in the balance sheet.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available for sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises costs of merchandise, design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Accounts and notes receivable and other receivables

Accounts and notes receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and notes receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2. Summary of significant accounting policies (Continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 License fees payable

License fees payable are initially recorded at the fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years. They are subsequently stated at amortised cost using the effective interest method less amounts paid.

2.16 Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Director and employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC, including the Hong Kong Special Administrative Region. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

Contributions to these plans are expensed as incurred. The Group has no other post-employment obligations under the employment contracts.

2. Summary of significant accounting policies (Continued)

2.17 Director and employee benefits (Continued)

(b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans. These comprise share option schemes and a share award scheme. The fair value of the employee services received in exchange for the share-based compensation is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options and shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) *Other benefits*

Other directors' and employees' obligations are recorded as a liability and charged to the income statement when the Group is continually obliged or when there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

2.20 Operating leases (as the lessee for operating leases)

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies (Continued)

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement as other income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement as other gain on a straight-line basis over the expected lives of the related assets.

2.22 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the employees' share award scheme, is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders in case of final dividend and the Company's directors in case of interim dividend.

2.23 Comparatives

Certain staff costs amounting to RMB26,356,000 incurred during the year ended 31 December 2005 in aggregate have been reclassified from distribution costs and administrative expenses to cost of sales in order to conform with the current year's presentation.

3. Financial risk management

3.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk.

Risk management is carried out by core management team of the Group under policies approved by the board of directors.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB.

Certain of the Group's cash and bank deposits are denominated in Hong Kong Dollars (HK$) or United States Dollars (US$) (Note 14). In addition, the Company is required to pay dividends in HK$ when dividends are declared.

Any foreign currency exchange rate fluctuations in connection with its deposits and investments may have a financial impact to the Group.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates, and the Group has no significant interest-bearing assets or liability other than cash deposits with banks. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of accounts and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible accounts and other receivables has been made in the consolidated financial statements.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate credit lines to ensure sufficient and flexible funding is available to the Group.

3.2 Fair value estimation

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables and other payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses the estimations at each balance sheet date.

(b) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Turnover and segment information

Turnover comprises the invoiced value for the sale of goods net of value added tax ("VAT"), rebates and discount.

Primary reporting format — business segment

The Group has its own brand; it operates in one business segment which is the brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel and accessories.

Secondary reporting format — geographical segment

The Group's assets, liabilities, capital expenditure and operations during the two years ended 31 December 2006 were primarily located in the PRC. No geographical segments analysis is presented as less than 5% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

6. Property, plant and equipment

	Buildings	Leasehold improvement	Mould	Machinery	Motor vehicles and office equipment	Construction-in-progress	Total
	'000	'000	'000	'000	'000	'000	'000
As at 1 January 2005							
Cost	68,759	23,535	—	9,527	43,339	150	145,310
Accumulated depreciation	(26,102)	(13,002)	—	(3,597)	(13,210)	—	(55,911)
Net book amount	42,657	10,533	—	5,930	30,129	150	89,399
Year ended 31 December 2005							
Opening net book amount	42,657	10,533	—	5,930	30,129	150	89,399
Additions	549	12,296	—	2,580	12,439	10,682	38,546
Disposals	—	(617)	—	(30)	(936)	—	(1,583)
Reclassification	(797)	797	—	324	(324)	—	—
Disposal of a subsidiary	—	(710)	—	—	(1,760)	(5,786)	(8,256)
Depreciation charge	(2,483)	(9,626)	—	(1,157)	(9,044)	—	(22,310)
Closing net book amount	39,926	12,673	—	7,647	30,504	5,046	95,796
As at 31 December 2005							
Cost	66,957	29,539	—	13,648	54,914	5,046	170,104
Accumulated depreciation	(27,031)	(16,866)	—	(6,001)	(24,410)	—	(74,308)
Net book amount	39,926	12,673	—	7,647	30,504	5,046	95,796
Year ended 31 December 2006							
Opening net book amount	**39,926**	**12,673**	**—**	**7,647**	**30,504**	**5,046**	**95,796**
Additions	**—**	**11,969**	**20,013**	**7,151**	**16,838**	**36,036**	**92,007**
Disposals	**—**	**(1,438)**	**—**	**(246)**	**(1,420)**	**—**	**(3,104)**
Reclassification	**—**	**—**	**—**	**—**	**5,046**	**(5,046)**	**—**
Disposal of a subsidiary	**—**	**(204)**	**—**	**—**	**(301)**	**—**	**(505)**
Depreciation charge	**(2,429)**	**(9,789)**	**(3,080)**	**(1,695)**	**(10,314)**	**—**	**(27,307)**
Closing net book amount	**37,497**	**13,211**	**16,933**	**12,857**	**40,353**	**36,036**	**156,887**
As at 31 December 2006							
Cost	**66,957**	**33,665**	**20,013**	**19,925**	**68,335**	**36,036**	**244,931**
Accumulated depreciation	**(29,460)**	**(20,454)**	**(3,080)**	**(7,068)**	**(27,982)**	**—**	**(88,044)**
Net book amount	**37,497**	**13,211**	**16,933**	**12,857**	**40,353**	**36,036**	**156,887**

6. Property, plant and equipment (Continued)

Construction-in-progress with net book value of RMB36,036,000 (2005: nil) as at 31 December 2006 is located in the PRC and are built on land with respect to which the Group is in the process of applying for the formal legal title to its land use right.

Depreciation expenses of RMB10,498,000 (2005: RMB11,448,000) has been charged in administrative expenses, RMB11,720,000 (2005: RMB8,552,000) in distribution costs, RMB5,089,000 (2005: RMB2,310,000) in cost of inventories.

7. Land use rights

	'000
As at 1 January 2005	
Cost	5,390
Accumulated amortisation	(1,333)
Net book amount	4,057
Year ended 31 December 2005	
Opening net book amount	4,057
Disposal	(70)
Amortisation charge	(130)
Closing net book amount	3,857
As at 31 December 2005	
Cost	5,320
Accumulated amortisation	(1,463)
Net book amount	3,857
Year ended 31 December 2006	
Opening net book amount	**3,857**
Addition	**22,002**
Amortisation charge	**(276)**
Closing net book amount	**25,583**
As at 31 December 2006	
Cost	**27,322**
Accumulated amortisation	**(1,739)**
Net book amount	**25,583**

Land use rights consist of prepaid lease payments for land for period varying from 20 to 50 years.

The Group is in the process of applying for formal legal title to land use right with net book value of RMB21,855,000 (2005: nil) as at 31 December 2006.

Amortisation charge of RMB276,000 (2005: RMB130,000) is included in administrative expenses.

8. Intangible assets

	Trademarks '000	Computer Software '000	License rights '000	Total '000
As at 1 January 2005				
Cost	1,526	12,221	—	13,747
Accumulated amortisation	(227)	(4,157)	—	(4,384)
Net book amount	1,299	8,064	—	9,363
Year ended 31 December 2005				
Opening net book amount	1,299	8,064	—	9,363
Additions	1,527	1,848	—	3,375
Disposal of a subsidiary	—	(278)	—	(278)
Disposals	—	(2)	—	(2)
Amortisation charge	(158)	(2,340)	—	(2,498)
Closing net book amount	2,668	7,292	—	9,960
As at 31 December 2005				
Cost	3,053	13,441	—	16,494
Accumulated amortisation	(385)	(6,149)	—	(6,534)
Net book amount	2,668	7,292	—	9,960
Year ended 31 December 2006				
Opening net book amount	**2,668**	**7,292**	**—**	**9,960**
Additions	**—**	**7,549**	**73,086**	**80,635**
Disposals	**(359)**	**(379)**	**—**	**(738)**
Amortisation charge	**(240)**	**(2,576)**	**(5,490)**	**(8,306)**
Closing net book amount	**2,069**	**11,886**	**67,596**	**81,551**
As at 31 December 2006				
Cost	**2,374**	**20,295**	**73,086**	**95,755**
Accumulated amortisation	**(305)**	**(8,409)**	**(5,490)**	**(14,204)**
Net book amount	**2,069**	**11,886**	**67,596**	**81,551**

Amortisation charge of RMB2,816,000 (2005: RMB2,498,000) has been charged to administrative expenses and RMB5,490,000 (2005: nil) to cost of sales.

9. Inventories

	2006 '000	2005 '000
Raw materials	**4,937**	1,934
Work in progress	**3,200**	3,730
Finished goods	**369,276**	299,180
	377,413	304,844
Less: Provision for write-down to net realisable value	**(26,869)**	(14,227)
	350,544	290,617

10. Investment in subsidiaries

	Company 2006 '000	2005 '000
Investment in unlisted shares, at cost	**79,568**	79,568
Loan to subsidiaries	**305,339**	155,088
Contribution to the Restricted Share Award Scheme Trust	**6,977**	—
	391,884	234,656

Loan to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The following is a list of the principal subsidiaries as at 31 December 2006:

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
Directly held:				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002	US$1,000	100%	Investment holding
Indirectly held:				
Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司)	Hong Kong, 28 May 2004	HK$1	100%	Research and development
Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司)	Hong Kong, 19 March 2003	HK$100	100%	Provision of administrative services
李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.)	The PRC, 25 August 1997	US$8,000,000	100%	Sale of sports goods
北京李寧體育用品有限公司 (Beijing Li Ning Sport Goods Co., Ltd.)	The PRC, 4 November 1997	RMB66,670,000	100%	Sale of sports goods
上海狐步物流諮詢服務有限公司 (Shanghai Hubu Logistics Consulting Services Co., Ltd.)	The PRC, 15 July 2004	RMB3,000,000	100%	Provision of logistics consulting service
上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.)	The PRC, 20 April 2000	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001	RMB3,000,000	100%	Product design, research and development

10. Investment in subsidiaries (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
Indirectly held (Continued):				
上海悦奥體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003	RMB3,000,000	100%	Sale of sports goods
佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastics School Services Co., Ltd.)	The PRC, 31 October 1996	RMB1,000,000	100%	Property management
廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.)	The PRC, 13 December 2001	RMB8,240,000	80%	Manufacturing of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999	RMB3,000,000	100%	Sale of sports goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003	RMB1,000,000	100%	Sale of sports goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997	RMB5,000,000	100%	Sale of sports goods
石家莊一動體育用品銷售有限公司 (Shijiazhuang Edosports Goods Sales Co., Ltd.)	The PRC, 12 November 1999	RMB1,000,000	100%	Sale of sports goods

10. Investment in subsidiaries (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
Indirectly held (Continued):				
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000	RMB5,000,000	100%	Sale of sports goods
天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.)	The PRC, 14 December 1999	RMB3,500,000	100%	Sale of sports goods
南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003	RMB1,000,000	100%	Sale of sports goods
新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.)	The PRC, 4 Feburary 2005	RMB1,000,000	100%	Sale of sports goods
長沙一動體用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.)	The PRC, 26 August 1998	RMB1,000,000	100%	Sale of sports goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.)	The PRC, 29 July 1998	RMB1,500,000	100%	Sale of sports goods
西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.)	The PRC, 23 January 2006	RMB1,000,000	100%	Sale of sports goods
大連一動體育用品銷售有限公司 (Dalian Edosports Goods Sales Co., Ltd.)	The PRC, 10 April 2006	RMB1,000,000	100%	Sale of sports goods

11. Interest in jointly controlled entities

The Group has a 50% equity interest in Li-Ning Aigle Ventures Limited ("Li-Ning Aigle Ventures") which is a company jointly controlled by the Group and Aigle International S.A., a company incorporated in France. Li-Ning Aigle Ventures and its subsidiary are principally engaged in the manufacturing, marketing and distribution of AIGLE branded apparel and footwear products in the PRC.

11. Interest in jointly controlled entities (Continued)

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated turnover and results of Li-Ning Aigle Ventures and its subsidiary as at and for the year ended 31 December 2006, which have been included in the consolidated balance sheet and income statement.

	As at 31 December	
	2006	2005
	'000	'000
Assets		
Non-current assets		
— Property, plant and equipment	**937**	—
— Intangible assets	**46**	—
Current assets		
— Inventories	**12,571**	—
— Accounts and other receivables	**3,314**	—
— Cash and cash equivalents	**16,934**	5
Total assets	**33,802**	5
Liabilities		
Non-current liabilities		
— Borrowings from shareholders	**12,559**	—
Current liabilities		
— Trade and other payables	**5,406**	63
Total liabilities	**17,965**	63
Net assets/(liabilities)	**15,837**	(58)

	Year ended 31 December	
	2006	2005
	'000	'000
Turnover	**5,469**	—
Cost of sales	**(3,012)**	—
Gross profit	**2,457**	—
Distribution costs	**(9,446)**	—
Administrative expenses	**(2,253)**	(63)
Finance cost — net	**(14)**	
Net loss	**(9,256)**	(63)

As at 31 December 2006 and 2005, the Group did not have any contingent liabilities in respect of its interest in jointly controlled entities.

12. Accounts and notes receivable

	2006	2005
	'000	'000
Accounts receivable	**586,635**	376,542
Notes receivable	**1,228**	400
Less: provision for impairment of receivables	**(8,720)**	(3,716)
	579,143	373,226

Customers are normally granted credit terms within the period of 60 to 90 days. Ageing analysis of accounts and notes receivable at the respective balance sheet dates is as follows:

	2006	2005
	'000	'000
0 – 30 days	**355,062**	226,956
31 – 60 days	**75,361**	67,105
61 – 90 days	**77,848**	44,661
91 – 180 days	**70,872**	34,504
181 – 365 days	**46**	637
Over 365 days	**8,674**	3,079
	587,863	376,942

13. Other receivables and prepayments

	Group		**Company**	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Advances to suppliers	**10,182**	1,856	**—**	—
Prepayment for advertisement	**29,478**	14,740	**—**	—
Rental and other deposits	**19,613**	17,131	**—**	—
Prepaid rental	**21,686**	18,165	**—**	—
Others	**28,992**	15,932	**148**	3,713
	109,951	67,824	**148**	3,713

14. Cash, cash equivalents and bank deposits

As at 31 December 2006, the Group had the following cash, cash equivalents and bank deposits held with banks in the PRC (including Hong Kong Special Administrative Region):

	Group		**Company**	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Cash at banks and in hand	**736,123**	378,368	**8,327**	8,837
Short-term bank deposits	**102,744**	—	**98,915**	—
Fixed deposits held at banks with maturity of more than three months	**10,304**	353,161	**10,304**	345,284
	849,171	731,529	**117,546**	354,121

The effective interest rate on the fixed deposits was 5.2% (2005: 3.8%). These deposits have an average maturity of 134 days (2005: 83 days).

14. Cash, cash equivalents and bank deposits (Continued)

An analysis of cash, cash equivalent and bank deposits by denominated currency is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Denominated in RMB	**703,253**	360,446	**—**	—
Denominated in HK Dollars	**129,570**	258,157	**106,954**	247,440
Denominated in US Dollars	**16,348**	112,926	**10,592**	106,681
	849,171	731,529	**117,546**	354,121

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC is subject to the rules and regulations of exchange control promulgated by the PRC government.

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme

	Number of shares (thousands)	Approximate amount HK$'000
Authorised at HK$0.10 each		
As at 31 December 2005 and 2006	10,000,000	1,000,000

Issued and fully paid

	Number of shares of HK$0.10 each (thousands)	Ordinary shares '000	Share premium '000	Shares held for Restricted Share Award Scheme '000	Total '000
As at 1 January 2005	1,023,038	108,563	564,323	—	672,886
Proceeds from shares issued pursuant to share option schemes (Note a)	3,129	326	5,626	—	5,952
Transfer of fair value of share options exercised to share premium	—	—	15,834	—	15,834
Dividends paid	—	—	(69,402)	—	(69,402)
As at 31 December 2005	1,026,167	108,889	516,381	—	625,270
As at 1 January 2006	**1,026,167**	**108,889**	**516,381**	**—**	**625,270**
Proceeds from shares issued pursuant to share option schemes (Note a)	**6,030**	**614**	**15,155**	**—**	**15,769**
Transfer of fair value of share options exercised to share premium	**—**	**—**	**19,705**	**—**	**19,705**
Shares purchased for Restricted Share Award Scheme (Note b)	**(709)**	**—**	**—**	**(6,367)**	**(6,367)**
Dividends paid	**—**	**—**	**(88,330)**	**—**	**(88,330)**
As at 31 December 2006	**1,031,488**	**109,503**	**462,911**	**(6,367)**	**566,047**

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme (Continued)

Notes:

(a) During the year ended 31 December 2006, the Company issued 6,030,000 shares (2005: 3,129,000 shares) of HK$0.10 each to directors and employees of the Group at weighted-average issued price of HK$2.5625 (2005: HK$1.8275) per share pursuant to the Company's share option schemes (Note 27).

(b) During the year ended 31 December 2006, the Li Ning Company Limited Restricted Share Award Scheme Trust, a trust established in Hong Kong purchased 709,000 (2005: nil) of the Company's shares. The total amount of RMB6,367,000 paid to acquire the shares was financed by the Company by way of contributions.

16. Reserves

Group

	Capital reserves (a) '000	Statutory reserve funds (b) '000	Statutory public welfare fund (b) '000	Share-based compensation reserve '000	Subtotal '000	Retained profits '000	Total '000
As at 1 January 2005	45,634	47,403	17,426	11,025	121,488	215,643	337,131
Profit for the year	—	—	—	—	—	186,800	186,800
Employee share option schemes for value of services provided	—	—	—	27,557	27,557	—	27,557
Transfer of fair value of the share options exercised to share premium	—	—	—	(15,834)	(15,834)	—	(15,834)
Appropriations to statutory reserves	—	22,368	3,479	—	25,847	(25,847)	—
As at 31 December 2005	45,634	69,771	20,905	22,748	159,058	376,596	535,654

	Capital reserves (a) '000	**Statutory reserve funds (b) '000**	**Statutory public welfare fund (b) '000**	**Share-based compensation reserve '000**	**Subtotal '000**	**Retained profits '000**	**Total '000**
As at 1 January 2006	**45,634**	**69,771**	**20,905**	**22,748**	**159,058**	**376,596**	**535,654**
Transfer of statutory public welfare fund (note(b)(ii))	**—**	**20,905**	**(20,905)**	**—**	**—**	**—**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**294,846**	**294,846**
Employee share option schemes for value of services provided	**—**	**—**	**—**	**22,648**	**22,648**	**—**	**22,648**
Transfer of fair value of the share options exercised to share premium	**—**	**—**	**—**	**(19,705)**	**(19,705)**	**—**	**(19,705)**
Appropriations to statutory reserves	**—**	**20,483**	**—**	**—**	**20,483**	**(20,483)**	**—**
As at 31 December 2006	**45,634**	**111,159**	**—**	**25,691**	**182,484**	**650,959**	**833,443**

16. Reserves (Continued)

Company

	Accumulated losses '000	Share-based compensation reserve '000	Total '000
As at 1 January 2005	(19,568)	11,025	(8,543)
Loss for the year	(39,424)	—	(39,424)
Employee share option schemes for value of services provided	—	27,557	27,557
Transfer of fair value of the share options exercised to share premium	—	(15,834)	(15,834)
As at 31 December 2005	(58,992)	22,748	(36,244)

	Accumulated losses '000	**Share-based compensation reserve '000**	**Total '000**
As at 1 January 2006	**(58,992)**	**22,748**	**(36,244)**
Loss for the year	**(32,848)**	**—**	**(32,848)**
Employee share option schemes for value of services provided	**—**	**22,648**	**22,648**
Transfer of fair value of the share options exercised to share premium	**—**	**(19,705)**	**(19,705)**
As at 31 December 2006	**(91,840)**	**25,691**	**(66,149)**

(a) *Capital reserves*

Capital reserves comprised the aggregate of contribution by the then-shareholders of the Group and the merger reserve arising during the reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited during 2004.

(b) *Statutory reserves*

Under the relevant PRC laws and regulations, the Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate a portion of their net profit to statutory funds before profit distribution to investors.

(i) Statutory reserve funds

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

PRC Companies incorporated under the "Company Law of the PRC" are required to allocate at least 10% of the companies' net profit to the Statutory Surplus Reserve until such fund reaches 50% of the companies' registered capital. The Statutory Surplus Reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" may appropriate a percentage of net profit to Reserve Fund after offsetting accumulated losses from prior years. The percentage of appropriation is determined by the board of directors of the companies.

16. Reserves (Continued)

Company (Continued)

(b) *Statutory reserves* (Continued)

(i) Statutory reserve funds (Continued)

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" are required to allocate at least 10% of the companies' net profit to the Reserve Fund until such fund reaches 50% of the companies' registered capital. The Reserve Fund, upon approval by relevant authorities, may be used to offset accumulated losses or to increase registered capital of the company.

(ii) Statutory public welfare fund

Until 31 December 2005, PRC Companies incorporated under the "Company Law of the PRC" were required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only use to provide welfare facilities and other collective benefits to the companies' employees.

Pursuant to the revised the "Company Law of the PRC" and regulations which are effective from 1 January 2006, relevant PRC Companies have ceased to provide for statutory public welfare fund from net profit. The balances of statutory public welfare fund as at 31 December 2005 have been transferred to relevant PRC Companies' Statutory Surplus Reserve.

(c) *Distributable reserves*

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its equity holders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2006, the Company had reserves available for distribution amounting to approximately RMB396,762,000 (2005: RMB480,137,000).

17. Trade payables

The normal credit period for trade payables generally ranges from 30 to 60 days. Ageing analysis of trade payables at the respective balance sheet dates is as follows:

	2006 **'000**	2005 '000
0 – 30 days	**310,120**	205,666
31 – 60 days	**102,647**	4,645
61 – 90 days	**7,653**	2,410
91 – 180 days	**3,015**	312
181 – 365 days	**346**	829
Over 365 days	**679**	300
	424,460	214,162

18. Other payables and accruals

	Group		Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Accrued expenses	**46,787**	49,668	**2,403**	2,262
Advances from customers	**14,782**	8,777	**—**	—
Wages payable	**44,842**	36,633	**—**	—
Welfare payable	**39,140**	37,048	**—**	—
VAT and other taxes payable	**34,231**	16,670	**—**	—
Payable for the land use right	**12,000**	—	**—**	—
Dividend payable	**60**	—	**60**	—
Others	**15,439**	12,400	**850**	1,202
	207,281	161,196	**3,313**	3,464

19. License fees payable

	2006	2005
	'000	'000
As at 1 January	**—**	—
Acquisition of license rights	**73,086**	—
Payment of license fees	**(2,340)**	—
Amortisation of discount	**2,064**	—
Adjustment for exchange difference	**(2,070)**	—
As at 31 December	**70,740**	—
Analysis of license fees payable		
Non-current, after the fifth year	**3,801**	—
Non-current, the second to fifth year	**55,953**	—
Current	**10,986**	—
	70,740	—

The Group has entered into several license agreements with sports organisation and athletes to obtain exclusive product development and marketing rights opportunities. Pursuant to the agreements, consideration shall be paid by the Group in tranches during the life of the licenses.

20. Deferred income tax assets

The movement in deferred income tax assets is as follows:

	Provision of assets	**Share options exercised**	**Total**
	'000	**'000**	**'000**
As at 1 January 2005 and 2006	**—**	**—**	**—**
Credited to the income statement	**4,492**	**7,963**	**12,455**
As at 31 December 2006	**4,492**	**7,963**	**12,455**

21. Expenses by nature

	2006	2005 (Reclassified — Note 2.23)
	'000	'000
Costs of inventories recognised as expenses included in cost of sales	**1,563,122**	1,226,719
Depreciation on property, plant and equipment	**27,307**	22,310
Amortisation of intangible assets	**8,306**	2,498
Amortisation of land use rights	**276**	130
Advertising and marketing expenses	**521,839**	375,958
Employee benefit expense — directors	**12,221**	25,476
Employee benefit expense — employees	**244,518**	194,622
Operating lease rentals in respect of land and buildings	**108,214**	96,548
Research and product development expenses	**78,837**	70,059
Transportation and logistics expenses	**53,686**	54,916
Provision for/(write back of) impairment charge of accounts receivable	**5,597**	(2,211)
Write-down of inventories to net realisable value	**14,789**	5,318
Auditors' remuneration	**3,120**	2,788
Other expenses	**165,754**	136,534
Total of cost of sales, distribution costs and administrative expenses	**2,807,586**	2,211,665

22. Other income

	2006	2005
	'000	'000
Government grants (Note a)	**24,591**	29,535
Net gain on disposal of a subsidiary (Note b)	**4,970**	3,091
	29,561	32,626

Notes:

(a) During the year ended 31 December 2006, the Group received subsidies from various local governments in the PRC amounting to RMB24,591,000 (2005: RMB29,535,000).

(b) During the year ended 31 December 2006, the Group disposed of Hangzhou Edosports Goods Sales Co., Ltd., a company incorporated in the PRC and principally engaged in sales of sports goods, to two individuals unrelated to the Group, and recognised gain on disposal of RMB4,970,000.

During the year ended 31 December 2005, the Group disposed of Beijing Dongxiang Sports Development Co., Ltd., a company incorporated in the PRC which is principally engaged in sales of "KAPPA" branded products, to Shanghai Tai Tan Sporting Goods Co., Ltd., a company incorporated in the PRC in which Mr. Chen Yihong, a former director, has a beneficial interest, and recognised gain on disposal of RMB3,091,000.

23. Employee benefit expenses

	2006	2005
	'000	'000
Wages and salaries	**138,979**	134,765
Contributions to retirement benefit plan (c)	**15,143**	13,476
Share options granted to directors and employees	**22,648**	27,557
Staff quarters and housing benefits	**4,879**	4,510
Other benefits	**75,090**	39,790
	256,739	220,098

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of director	**Fees**	**Salary**	**Discretionary bonuses**	**Inducement fees**	**Other benefits (i)**	**Employer's contribution to pension scheme**	**Total**
	'000	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**
Mr. Li Ning	**408**	**1,814**	**—**	**—**	**482**	**175**	**2,879**
Mr. Zhang Zhi Yong	**508**	**1,523**	**—**	**—**	**2,644**	**117**	**4,792**
Mr. Tan Wee Seng	**408**	**573**	**469**	**—**	**1,490**	**—**	**2,940**
Mr. Lim Meng Ann	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Stuart Schonberger	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Fong Ching, Eddy (iii)	**121**	**—**	**—**	**—**	**43**	**—**	**164**
Mr. Koo Fook Sun, Louis	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Ms. Wang Ya Fei, Jane	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Chan Chung Bun, Bunny	**151**	**—**	**—**	**—**	**52**	**—**	**203**

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of director	Fees	Salary	Discre-tionary bonuses	Induce-ment fees	Other benefits (i)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	'000	'000	'000	'000	'000	'000	'000	'000
Mr. Li Ning	412	1,814	1,093	—	583	109	—	4,011
Mr. Zhang Zhi Yong	412	1,120	729	—	9,720	126	—	12,107
Mr. Tan Wee Seng	412	573	662	—	3,574	—	—	5,221
Mr. Chen Yi Hong (ii)	274	582	—	—	352	67	1,497	2,772
Mr. Lim Meng Ann	160	—	—	—	81	—	—	241
Mr. Stuart Schonberger	160	—	—	—	81	—	—	241
Mr. Fong Ching, Eddy (iii)	160	—	—	—	81	—	—	241
Mr. Koo Fook Sun, Louis	160	—	—	—	81	—	—	241
Ms. Wang Ya Fei, Jane	160	—	—	—	81	—	—	241
Mr. Chan Chung Bun, Bunny	160	—	—	—	—	—	—	160

(i) Other benefits include insurance premium, housing allowance and the fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. Chen Yi Hong resigned as the Company's director on 1 September 2005.

(iii) Mr. Fong Ching, Eddy resigned as the Company's non-executive director on 20 October 2006.

23. Employee benefit expenses (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two directors for the year ended 31 December 2006 (2005: four directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining individuals whose emoluments were the highest in the Group for the year are as follows:

	2006 '000	2005 '000
Salaries and allowances	**1,768**	817
Other benefits	**2,266**	973
Contributions to retirement benefit scheme	**175**	45
	4,209	1,835

(c) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government under which the Group is required to make monthly defined contributions to these plans at rates ranging from 19% to 22% of the employees' basic salary dependent upon the applicable local regulations.

24. Finance cost/(income) — net

	2006 '000	2005 '000
Interest expenses on bank borrowings wholly repayable within 5 years	**—**	1,102
Amortisation of discount — license fees payable (Note 19)	**2,064**	—
Interest income on bank balances and deposits	**(14,448)**	(14,026)
Net foreign currency exchange loss	**13,749**	10,970
	1,365	(1,954)

25. Income tax expense

	2006 '000	2005 '000
Current taxation		
— Hong Kong profits tax (Note b)	**582**	365
— The PRC enterprise income tax (Note c)	**117,963**	84,741
	118,545	85,106
Deferred income tax	**(12,455)**	—
	106,090	85,106

Notes:

(a) The Company was incorporated in the Cayman Islands. Under current laws of 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) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2006 (2005: 17.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 33% on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% based on the relevant PRC tax rules and regulations.

25. Income tax expense (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 33% as follows:

	2006 **'000**	2005 '000
Profit before income tax	**401,153**	273,451
Tax calculated at a tax rate of 33%	**132,380**	90,239
Effects of different tax rate in Hong Kong	**(2,676)**	(324)
Preferential tax rates on the income of certain subsidiaries	**(51,951)**	(33,684)
Tax losses not recognised	**13,937**	8,937
Expenses not deductible for tax purposes	**23,341**	26,719
Tax credit granted to a subsidiary	**(7,170)**	(6,483)
Income not subject to tax	**(1,771)**	(298)
Taxation charge	**106,090**	85,106

The weighted average applicable tax rate was 26.4% (2005: 31.1%).

26. Dividends

	2006 **'000**	2005 '000
Interim dividend paid of RMB3.80 cents (2005: RMB2.30 cents) per ordinary share	**38,863**	22,649
Proposed final dividend of RMB7.64 cents (2005: RMB5.00 cents) per ordinary share	**78,860**	49,467
	117,723	72,116

Note:

At a board meeting held on 22 March 2006, the directors proposed a final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share. Dividend of RMB49,467,000 was paid to shareholders whereafter in 2006.

At a board meeting held on 20 March 2007, the directors proposed a final dividend of RMB7.64 cents per ordinary share, totalling RMB78,860,000 for the year ended 31 December 2006. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2007.

27. Share-based compensation

(a) Share Purchase Scheme

Alpha Talent Management Limited ("Alpha Talent") was set up in 2004 by Mr. Li Ning, a substantial shareholder and chairman of the Company, to hold 35,250,000 of the Company's shares beneficially owned by Mr. Li Ning.

The objective of the Share Purchase Scheme (the "Alpha Talent Option") is to provide for the grant of rights to purchase the Company's shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key individuals who have contributed to the economic achievement of the Group.

The Alpha Talent Option was adopted by Alpha Talent on 5 June 2004 and is effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent determines the individuals within the Group who shall be selected to receive options, the exercise price, and the terms and conditions of the options. Lapsed or cancelled options will be re-granted in accordance with the terms of the Alpha Talent Option until all shares held by Alpha Talent have been purchased pursuant to the scheme.

27. Share-based compensation (Continued)

(a) Share Purchase Scheme (Continued)

Currently granted options vest gradually after the individuals complete certain periods of service in the Group's companies ranging from 6 to 36 months.

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Weighted average exercise price (per share) HK$	**Outstanding options (thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	**0.65**	**20,370**	0.69	24,630
Granted	**0.86**	**4,500**	3.19	4,603
Exercised	**0.72**	**(11,474)**	2.07	(8,863)
Lapsed	**0.86**	**(769)**	—	—
As at 31 December	**0.66**	**12,627**	0.65	20,370
Exercisable as at 31 December	**0.49**	**8,727**	0.68	16,042

Share options outstanding as at the end of the years have the following expiry date and weighted average exercise price:

	2006		2005	
Expire date	**Weighted average exercise price (per share) HK$**	**Share options (thousands)**	Weighted average exercise price (per share) HK$	Share options (thousands)
8 June 2010	**0.55**	**8,332**	0.64	18,967
11 November 2011	**0.86**	**395**	0.86	1,403
5 July 2012	**0.86**	**3,700**	—	—
30 August 2012	**0.86**	**200**	—	—
		12,627		20,370

(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Option") on 5 June 2004. HK$1 is payable by the grantee who accepts the grant of an option. The purpose of the scheme is to give the directors and full-time employees of the Company and the Group an opportunity to have a personal stake in the Company and recognise their contribution to the Group.

Total number of share options subject to the Pre-IPO Option is 16,219,000 shares and they have been granted on 5 June 2004. No further share options will be granted under the Pre-IPO Option. Options granted under the Pre-IPO Option vest gradually after employees or directors complete a period of service in the Group for 12 to 36 months starting from the date of grant (5 June 2004).

27. Share-based compensation (Continued)

(b) Pre-IPO Share Option Scheme (Continued)

Movement in the number of share options outstanding and their exercise prices are as follows:

	2006		2005	
	Exercise price (per share) HK$	**Outstanding options (thousands)**	Exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	**1.8275**	**11,512**	1.8275	15,641
Exercised	**1.8275**	**(3,644)**	1.8275	(3,129)
Lapsed	**1.8275**	**(623)**	1.8275	(1,000)
As at 31 December	**1.8275**	**7,245**	1.8275	11,512
Exercisable as at 31 December	**1.8275**	**3,244**	1.8275	2,501

Share options outstanding as at the end of the years have the following expiry date and exercise price:

	2006		2005	
Expire date	**Exercise price (per share) HK$**	**Share options (thousands)**	Exercise price (per share) HK$	Share options (thousands)
5 June 2010	**1.8275**	**7,245**	1.8275	11,512

(c) Share Option Scheme

Pursuant to a shareholders' resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Post-IPO Option"). The Post-IPO Option will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the Post-IPO Option is to provide incentives to eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

HK$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares that may be granted under the Post-IPO Option and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the Post-IPO Option.

An option may be exercised in accordance with the terms of the Post-IPO Option at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

27. Share-based compensation (Continued)

(c) Share Option Scheme (Continued)

Any share of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Weighted average exercise price (per share) HK$	**Outstanding options (thousands)**	Exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	**3.685**	**15,505**	—	—
Granted	**8.596**	**3,778**	3.685	15,921
Exercised	**3.685**	**(2,386)**	—	—
Lapsed	**4.109**	**(1,602)**	3.685	(416)
As at 31 December	**4.951**	**15,295**	3.685	15,505
Exercisable as at 31 December	**3.685**	**2,638**	—	—

Share options outstanding at the end of the years have the following expiry date and exercise price:

	2006		2005	
Expire date	**Exercise price (per share) HK$**	**Share options (thousands)**	Exercise price (per share) HK$	Share options (thousands)
4 July 2011	**3.685**	**11,649**	3.685	15,505
3 January 2012	**5.500**	**360**	—	—
4 September 2012	**8.830**	**2,896**	—	—
11 October 2012	**8.950**	**90**	—	—
20 November 2012	**9.840**	**300**	—	—
		15,295		15,505

(d) Fair value of share options

The fair value of the options granted under the above schemes during the years ended 31 December 2006 and 2005 determined using Black-Scholes valuation model were as follows:

	2006 '000	2005 '000
Alpha Talent Option	**27,068**	10,190
Post-IPO Option	**10,771**	17,368

The fair values of Alpha Talent Option, Pre-IPO Option and Post-IPO Option are charged to the income statement over the vesting period of the options. The amount charged in 2006 were RMB11,705,000, RMB1,422,000, and RMB8,429,000 respectively (2005: RMB17,904,000, RMB4,521,000 and RMB5,132,000).

27. Share-based compensation (Continued)

(d) Fair value of share options (Continued)

The fair values were determined using the Black-Scholes valuation model which was performed by an independent valuer, American Appraisal China Limited. Significant inputs into the model were as follows:

	2006	2005
Alpha Talent Option		
Weighted average share price (HK$)	**7.26**	4.68
Weighted average exercise price (HK$)	**0.86**	3.19
Expected volatility	**43.7%**	39.2%
Expected option life (years)	**4.00**	3.11
Weighted average annual risk free interest rate	**4.7%**	4.4%
Expected dividend yield	**2.0%**	2.0%
Post-IPO Option		
Weighted average share price (HK$)	**8.53**	3.65
Weighted average exercise price (HK$)	**8.60**	3.69
Expected volatility	**43.8%**	39.2%
Expected option life (years)	**3.98**	4.00
Weighted average annual risk free interest rate	**4.0%**	3.3%
Expected dividend yield	**2.0%**	2.0%

The expected volatility is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004).

(e) Restricted Share Award Scheme

The Company adopted the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statement as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with finance provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocated to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 20,555,900 shares, being 2% of the Company's issued ordinary shares as at the adoption date of 14 July 2006. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued ordinary shares as at the adoption date of 14 July 2006.

The fair value of Restricted Shares awarded was based on the market value of the Company's shares at the grant date.

27. Share-based compensation (Continued)

(e) Restricted Share Award Scheme (Continued)

The movement in the number of Restricted Shares granted and related fair value are as follows:

	2006		2005	
	Weighted average fair value per share HK$	**Number of Restricted Shares granted (thousands)**	Weighted average fair value per share HK$	Number of Restricted Shares granted (thousands)
As at 1 January	**—**	**—**	—	—
Granted	**9.10**	**763**	—	—
Lapsed	**9.01**	**(6)**	—	—
As at 31 December	**9.10**	**757**	—	—
Vested on 31 December	**—**	**—**	—	—

The fair value of Restricted Shares charged to the income statement was RMB1,092,000 (2005: Nil).

28. 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 ordinary shares in issue during the year, less shares held for Restricted Share Award Scheme.

	2006 '000	2005 '000
Profit attributable to equity holders of the Company	**294,846**	186,800
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	**1,029,030**	1,023,827
Basic earnings per share (RMB cents)	**28.65**	18.25

28. Earnings per share (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and unvested awarded shares. 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 and the payout of the awarded shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows.

	2006 '000	2005 '000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**294,846**	186,800
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	**1,029,030**	1,023,827
Adjustment for share options and awarded shares (in thousands)	**14,537**	6,750
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,043,567**	1,030,577
Diluted earnings per share (RMB cents)	**28.25**	18.13

29. Cash flow statement

(a) Reconciliation of profit before income tax to net cash inflow generated from operations:

	2006 '000	2005 '000
Profit before income tax	**401,153**	273,451
Adjustments for:		
Depreciation	**27,307**	22,310
Amortisation	**8,582**	2,628
Provision for/(write-back of) impairment charge on accounts receivable	**5,597**	(2,211)
Write-down of inventories to net realisable value	**14,789**	5,318
Gain on disposal of a subsidiary	**(4,970)**	(3,091)
Share options charged to compensation expense	**22,648**	27,557
Loss on disposals of property, plant and equipment and intangible assets	**1,564**	884
Finance cost/(income) — net	**1,365**	(1,954)
Operating profit before working capital changes	**478,035**	324,892
(Increase)/decrease in inventories	**(83,295)**	11,126
Increase in accounts and notes receivable	**(213,084)**	(176,441)
(Increase)/decrease in other receivables and prepayments	**(48,489)**	7,642
Increase/(decrease) in trade payables	**226,561**	(19,951)
Increase in other payables and accruals	**35,639**	59,294
Cash inflow generated from operations	**395,367**	206,562

29. Cash flow statement (Continued)

(b) Disposal of a subsidiary

On 1 March 2006, the Group disposed of Hangzhou Edosports Goods Sales Co., Ltd., a company incorporated in the PRC and principally engaged in sale of sports goods, to two individuals unrelated to the Group, for a cash consideration of RMB1,630,000.

Major assets and liabilities of Hangzhou Edosports Goods Sales Co., Ltd. as at 1 March 2006 are as follows:

	'000
Property, plant and equipment	505
Inventories	8,579
Accounts receivable	1,570
Other receivables and prepayments	1,973
Cash and cash equivalents	1,739
	14,366
Trade payables	(16,263)
Other payable and accruals	(1,443)
	(17,706)
Net liabilities	(3,340)
Consideration	1,630
Gain on disposal	4,970

Analysis of cash outflow from disposal:

	'000
Consideration in cash	1,630
Less: Cash and cash equivalents disposed	(1,739)
Net cash outflow	(109)

30. Commitments

(a) Capital commitments

Capital expenditure authorised but not contracted and contracted but not paid at the balance sheet date is as follows:

	2006 '000	2005 '000
Property, plant and equipment		
— authorised but not contracted	**5,243**	98,000
— contracted but not paid	**102,601**	—
Land use right		
— contracted but not paid	**—**	12,000
	107,844	110,000

30. Commitments (Continued)

(b) Operating lease commitments — where group companies are the lessee

The Group has commitments to make the following aggregate minimum payments under non-cancelable operating leases in respect of its office premises and shops:

	2006 '000	2005 '000
No later than 1 year	**47,933**	51,776
Later than 1 year and not later than 5 years	**157,183**	91,893
Later than 5 years	**6,413**	2,880
	211,529	146,549

31. Significant related party transactions

The Group has following significant related party transactions:

	2006 '000	2005 '000
Sale of goods to:		
— 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by the family members of Mr. Chen Yi Hong, an ex-director	**—**	9,663
— 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Company Limited), a company controlled by the family members of Mr. Chen Yi Hong, an ex-director	**—**	345
Sponsorship fee paid to:		
— 北京一動體育發展有限公司 (Beijing Edo Sports Development Company Limited), a company controlled by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a company controlled by the family members of Mr. Li Ning, chairman of the Company	**3,729**	3,250
Consideration received from disposal of a subsidiary to:		
— 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a company controlled by Mr. Chen Yi Hong, an ex-director	**—**	8,614

In the opinion of the directors, these transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

32. Events after the balance sheet date

(a) On 1 January 2007, options to purchase 300,000 shares of the Company held by Alpha Talent Management Limited, a company owed by Mr. Li Ning who is the chairman and a substantial shareholder of the Company, were granted to certain employees of the Group at an exercise price of HK$0.86 per share pursuant to the share purchase scheme of Alpha Talent Management Limited.

(b) On 12 January 2007, 5,500 restricted shares of the Company were granted to certain employees of the Group pursuant to the Restricted Share Award Scheme.

Glossary

In this annual report, unless the context states otherwise, the following expressions have the following meanings:

"AIGLE"	Aigle International S.A., a corporation organised under the laws of France
"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and beneficially owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
"ATP"	Association of Tennis Professionals
"Beijing Li Ning"	北京李寧體育用品有限公司 (Beijing Li Ning Sports Goods Co., Ltd.), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"Board"	the board of Directors
"Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Hong Kong Stock Exchange
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"NBA"	National Basketball Association
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company adopted on 5 June 2004
"PRC"	the People's Republic of China
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme of the Company adopted on 5 June 2004
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006
"RMB"	Renminbi, the lawful currency of the PRC
"Share Purchase Scheme"	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholders"	shareholders of the Company