# LI NING COMPANY LIMITED

# (李寧有限公司)

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

**(Stock Code: 2331)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

### 2006 ANNUAL RESULTS HIGHLIGHTS

- Turnover rose by 29.8% to RMB3,180.5 million*
- Profit attributable to equity holders grew by 57.8% to RMB294.8 million
- Basic earnings per share amounted to RMB28.65 cents (2005: RMB18.25 cents), an increase of 57.0%
- Margin of profit attributable to equity holders was 9.3% (2005: 7.6%)
- Proposed final dividend of RMB7.64 cents per ordinary share

* *Sales of LI-NING branded products, which accounted for 99.6% of the total turnover, improved by 35.7% to RMB3,168.0 million.*

**ANNUAL RESULTS**

The board of directors (the "Board" or "Directors") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006, together with the comparative figures for 2005, as follows:

**CONSOLIDATED BALANCE SHEET**
*As at 31 December 2006*
*(All amounts in RMB thousands unless otherwise stated)*

| | | As at 31 December | |
|---|---|---|---|
| | *Note* | **2006** | 2005 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **156,887** | 95,796 |
| Land use rights | | **25,583** | 3,857 |
| Intangible assets | | **81,551** | 9,960 |
| Deposit paid for land use right | | **—** | 10,002 |
| Deferred income tax assets | | **12,455** | — |
| | | **276,476** | 119,615 |
| **Current assets** | | | |
| Inventories | | **350,544** | 290,617 |
| Accounts and notes receivable | *6* | **579,143** | 373,226 |
| Other receivables and prepayments | | **109,951** | 67,824 |
| Fixed deposits held at banks | | **10,304** | 353,161 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents | | **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 | | **109,503** | 108,889 |
| Share premium | | **462,911** | 516,381 |
| Shares held for Restricted Share Award Scheme | | **(6,367)** | — |
| Other reserves | | **182,484** | 159,058 |
| Retained profits | | | |
| 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 | | **59,754** | — |
| **Current liabilities** | | | |
| Trade payables | *7* | **424,460** | 214,162 |
| Other payables and accruals | | **207,281** | 161,196 |
| Current income tax liabilities | | **45,725** | 29,157 |
| License fees payable — current portion | | **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 |

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2006*
*(All amounts in RMB thousands unless otherwise stated)*

| | Note | Year ended 31 December 2006 | 2005 (Reclassified — Note 3.3) |
|---|---|---|---|
| Turnover | 5 | **3,180,543** | 2,450,536 |
| Cost of sales | | **(1,671,991)** | (1,324,347) |
| **Gross profit** | | **1,508,552** | 1,126,189 |
| Distribution costs | | **(900,865)** | (683,150) |
| Administrative expenses | | **(234,730)** | (204,168) |
| Other income | 8 | **29,561** | 32,626 |
| **Operating profit** | | **402,518** | 271,497 |
| Finance (cost)/income — net | 10 | **(1,365)** | 1,954 |
| **Profit before income tax** | | **401,153** | 273,451 |
| Income tax expense | 11 | **(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 | 13 | **28.65** | 18.25 |
| — Diluted | 13 | **28.25** | 18.13 |
| **Interim dividend and proposed final dividend** | 12 | **117,723** | 72,116 |

## Notes:
*(All amounts in RMB thousands unless otherwise stated)*

**1. GENERAL INFORMATION**

Li Ning Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design, manufacturing, sales 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 registered office is Cricket Square, Hutchins Drive, P.O. Box 2681GT, 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 on 20 March 2007.

## 2. CHANGES IN ACCOUNTING POLICIES

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 judgement in the process of applying the Group's accounting policies.

(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.

(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.

## 3. NEW ACCOUNTING POLICIES

### 3.1 Intangible assets

*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.

### 3.2 License fee payables

License fee payables 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.

### 3.3 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.

## 4. FINANCIAL RISK MANAGEMENT

### 4.1 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.

(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$) or United States Dollars (US$). 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.

(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.

### 4.2 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.

## 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, sales 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 2005 and 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. ACCOUNTS AND NOTES RECEIVABLE

| | 2006 | 2005 |
|---|---|---|
| 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 |
|---|---|---|
| 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 |

## 7. 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** | 2005 |
|---|---|---|
| 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 |

## 8. OTHER INCOME

| | **2006** | 2005 |
|---|---|---|
| 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.

## 9. EXPENSES BY NATURE

| | 2006 | 2005 (Reclassified — Note 3.3) |
|---|---|---|
| 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 |

## 10. FINANCE COST/(INCOME) — NET

| | 2006 | 2005 |
|---|---|---|
| Interest expenses on bank borrowings wholly repayable within 5 years | **—** | 1,102 |
| Amortisation of discount-license fees payable | **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) |

## 11. INCOME TAX EXPENSE

| | 2006 | 2005 |
|---|---|---|
| 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 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.

## 12. DIVIDENDS

| | 2006 | 2005 |
|---|---|---|
| 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.

## 13. 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 | 2005 |
|---|---|---|
| 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 |

**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 | 2005 |
|---|---|---|
| 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 |

## 14. 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 owned 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.

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB7.64 cents per ordinary share for the year ended 31 December 2006 (2005: RMB5.00 cents). The proposed dividend payment is subject to approval by the shareholders of the Company at the annual general meeting to be held on 11 May 2007 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 11 May 2007. Upon shareholders' approval, the proposed final dividend will be paid on or about 21 May 2007 to shareholders whose names shall appear on the register of members of the Company on 11 May 2007.

Together with the interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per ordinary share (2005: RMB2.30 cents, equivalent to HK2.21cents), total dividend per ordinary share in respect of the year ended 31 December 2006 amounts to RMB11.44 cents (2005: RMB7.30 cents).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 8 May 2007 to Friday, 11 May 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 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 Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 May 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### *Overview*

For the year ended 31 December 2006, the Group's turnover grew by 29.8% to RMB3,180,543,000; operating profit rose by 48.3% to RMB402,518,000; EBITDA (i.e. earnings before interest, tax, depreciation and amortisation) grew by 47.9% to RMB438,407,000. Profit after tax increased by 56.7% to RMB295,063,000, while profit attributable to equity holders surged by 57.8% to RMB294,846,000. Return on equity holders' equity was 23.0%. Net asset value per share was RMB137.38 cents, and debt to equity holders' equity ratio (i.e. total liabilities as a percentage of equity holders' equity) was 53.5%.

***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 | | |
| | | **% of total turnover** | | % of total turnover | **Change** |
| | ***RMB'000*** | ***(%)*** | *RMB'000* | *(%)* | *(%)* |
| **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.*

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 International S.A. ("AIGLE") of France were launched in the first half of 2006 and sales in 2006 amounted to RMB12,498,000.

*Percentage of turnover by sales channel*

| | **Year ended 31 December** | |
|---|---|---|
| | **2006** | 2005 |
| | ***% of total turnover (%)*** | *% 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.*

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 | | |
| | *Notes* | ***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 stayed 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 approximately RMB26,869,000 (31 December 2005: RMB14,227,000). In light of business expansion, the proportion of provision for inventories was adjusted 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 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 Spanish Men's 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 summarized as 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 the 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 were 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 the 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 the 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 the Association of Tennis Professionals ("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 wore 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 (李寧中國大學生足球聯賽). 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 Chinese university students 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 the National Track & Field Team of the Republic of Sudan on 1 January 2006. Athletes of the Sudan National Team will put on LI-NING branded products in the 2008 Beijing Olympics. The Sudan 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 Olympics. 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 about 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 advertising in order 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 the LI-NING brand by highlighting the distinctive cultural difference between the LI-NING brand and its international peers. It also allows the 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. Four of these commercials have won the Grand Prize and other five major awards in the Chinese Element International Creative Contest (中國元素國際創意大賽) at the 13th China Advertising Festival held by the China Advertising Association. The Group was also awarded "The Most Creative Organization" (最具創意機構) in 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 all kinds of research and development works for new product designs. Of a wide array of new products launched during the year, the "Flying Feather" (天羽) running shoes and "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 Asian culture and fashion sense is a new concept which distinguishes the 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 12 provinces in the PRC.

*Number of franchised and directly-managed retail stores*

| | **As at 31 December** | | **Change** |
|---|---|---|---|
| | **2006** | 2005 | *(%)* |
| **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 |

With a view to establish an international, professional and trendy image for the 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 below:

— 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 was 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 developing 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 Company's 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 the 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 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 the 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 organization 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 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 the LI-NING brand.

In line with its development strategies and objectives, the Group has adjusted its organization 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.

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

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

## CORPORATE GOVERNANCE

The Company is committed to upholding the highest standard of corporate governance by continual reviews and enhancement of its corporate governance practices. During the year under review, the Board has complied with all the code provisions and most of the recommended practices set out in Appendix 14 of the Code on Corporate Governance Practices to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. In the "Asia's Best Companies Poll 2006" conducted by *FinanceAsia Magazine*, the Company was voted one of the "Top 10 Chinese Companies with the Best Corporate Governance" by investment professionals and financial analysts. It is a recognition of the investment community to the Group's high level of corporate governance. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2006.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2006, together with the management and external auditors.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 11 May 2007 at 11:00 a.m. A notice convening the annual general meeting will be published in the *South China Morning Post* and the *Hong Kong Economic Times* on or about 16 April 2007 and will be dispatched to the shareholders together with the Company's 2006 annual report.

*As at the date of this announcement, the executive Directors of the Company are Mr. LI Ning, Mr. ZHANG Zhi Yong and Mr. TAN Wee Seng. The non-executive Directors are Mr. LIM Meng Ann and Mr. Stuart SCHONBERGER. The independent non-executive Directors are Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei, Jane and Mr. CHAN Chung Bun, Bunny.*

*This results announcement is published on the Company's websites at www.lining.com and www.irasia.com/listco/hk/lining and The Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk.*

By order of the Board
**Li Ning Company Limited**
**LI NING**
*Chairman*

Hong Kong, 20 March 2007