



**Li Ning Company Limited**

**( 李寧有限公司 )**

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

*(Stock Code: 2331)*



# Driving Forward Building Trust

Annual Report 2007





## Mission

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

## Vision

A 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 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 brand retail outlets in congruence with the Group's marketing direction. The Group also directly manages its own LI-NING brand retail outlets and concessions. In addition, the Group has established a joint venture with AIGLE under which the joint venture has been given the exclusive right by AIGLE to manufacture, market, distribute and sell outdoor sports products under the AIGLE brand for 50 years in the PRC. In April 2007, the Group officially launched a new brand called Z-DO. Z-DO branded products include sports footwear, apparel and accessories, and primarily target the hypermarkets as their sales channel.

Jan



Announced the establishment of strategic co-operation with CCTV National Sports Channel *(including the 2008 Olympics Channel)*

Jan



Entered into an agreement with the Argentina Basketball Federation to be the official sponsor of the men's and women's Argentina National Basketball Teams

Jan



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

# Highlights of the

Collaborated with Beijing Sports University to promote sports development in rural areas of China, charitable "Let's Do Sports Together" education project launched for sports teachers in villages

Apr



Entered into an agreement to sponsor the Second Asian Indoor Games

May



Became the official partner of the Spanish Olympic Committee and the official sportswear sponsor of the Spanish Olympic Delegation

Jun



Liu Qi, a member of the Political Bureau of the Communist Party of China Central Committee, Secretary of the Beijing Municipal CPC Committee and President of Beijing Organizing Committee for the Olympic Games visited the Company

Nov



Named "CIMA 2007 Quality Employer Partner" by The Chartered Institute of Management Accountants

Nov





Jan



Honoured with "2006 The Best Enterprise's Public Image Award" jointly organized 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

Mar



Honoured as "2006 CCTV The Best Employer"

Apr



Honoured as "2006 The Most Respectable Enterprise in China" for two consecutive years

# Year 2007

Jan-Dec

Signed an agreement with tennis top seed Ivan Ljubicic



Sep

Unveiled the "Hero" 2008 Olympics Strategies



Nov

Announced the acquisition of well known table tennis brand - "Double Happiness"



Nov

Honoured with "Directors of the Year Award 2007 - Board Category" by The Hong Kong Institute of Directors



Nov

"Banpo" (半坡) basketball shoes won the 2007 "iF Design Awards" and "2007 China Innovative Design Red Star Award"



Dec



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# 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

Mr. CHU Wah Hui (朱華煦)

Mr. James Chun-Hsien WEI (韋俊賢)

### 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)

## 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)

Mr. CHU Wah Hui (朱華煦)

## COMPANY SECRETARY

Mr. TAN Wee Seng (陳偉成), FCMA

## AUTHORISED REPRESENTATIVES

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

## QUALIFIED ACCOUNTANT

Mr. TAN Wee Seng (陳偉成), FCMA

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands



## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2804–5, Shell Tower  
Times Square  
Causeway Bay  
Hong Kong  
Telephone: +852 3102 0926  
Fax: +852 3102 0927

## OPERATIONAL HEADQUARTERS

No. 8 Xing Guang 5th Street  
Opto-Mechatronics Industrial Park  
Zhongguancun Science & Technology Area  
Tongzhou District  
Beijing, PRC  
Telephone: +8610 80800808  
Fax: +8610 80800000

## 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

## AUDITOR

PricewaterhouseCoopers  
Certified Public Accountants

## LEGAL ADVISORS

*Hong Kong law*  
Baker & McKenzie

*PRC law*  
Beijing Guorui Law Firm  
Beijing Haisi 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)

	2007	Year ended 31 December			
		2006	2005	2004	2003
Revenue	4,348,747	3,180,543	2,450,536	1,878,102	1,276,224
Operating profit	609,855	402,518	271,497	180,418	119,109
Profit before income tax	618,532	401,153	273,451	181,239	114,563
Earnings before interest, tax, depreciation and amortisation (EBITDA)	681,764	438,407	296,435	200,839	134,282
Profit attributable to equity holders	473,606	294,846	186,800	122,414	93,960
Non-current assets	607,052	276,476	119,615	102,819	89,523
Current assets	2,173,799	1,888,809	1,463,196	1,378,612	678,255
Current liabilities	977,429	688,452	404,515	454,206	362,877
Net current assets	1,196,370	1,200,357	1,058,681	924,406	315,378
Total assets	2,780,851	2,165,285	1,582,811	1,481,431	767,778
Total assets less current liabilities	1,803,422	1,476,833	1,178,296	1,027,225	404,901
Equity holders' equity	1,744,601	1,399,490	1,160,924	1,010,017	389,032
Gross profit margin (%)	47.9	47.4	46.0	46.5	47.5
Margin of profit attributable to equity holders (%)	10.9	9.3	7.6	6.5	7.4
Earnings per share — basic (RMB cents)	45.83	28.65	18.25	13.78	12.53
— diluted (RMB cents)	45.09	28.25	18.13	13.75	N/A
Return on equity holders' equity (%)	30.1	23.0	17.2	17.5	31.1
Net tangible assets per share (RMB cents)	157.63	127.00	112.42	112.64	51.37
Debt to equity ratio (%) (Note)	59.4	53.5	35.0	45.0	93.0

Note:

The calculation of debt to equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.

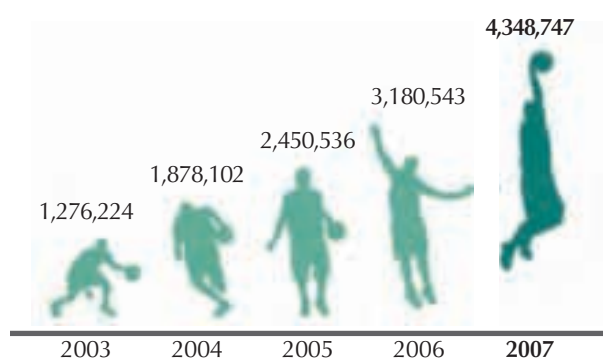




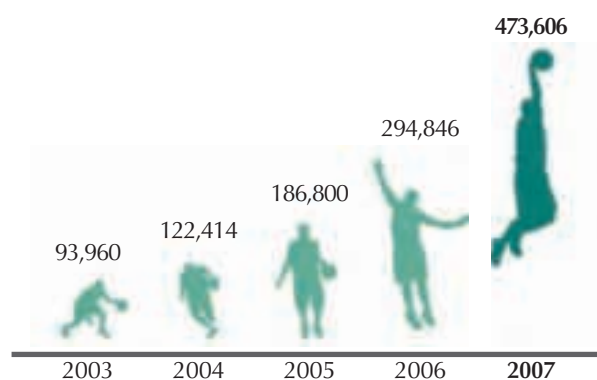
## Five-year Financial Highlights

(continued)

### REVENUE

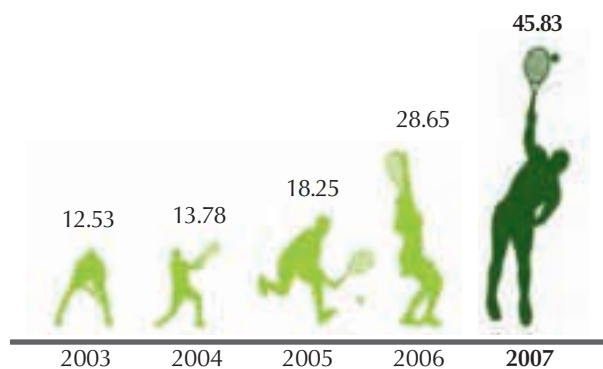


### PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



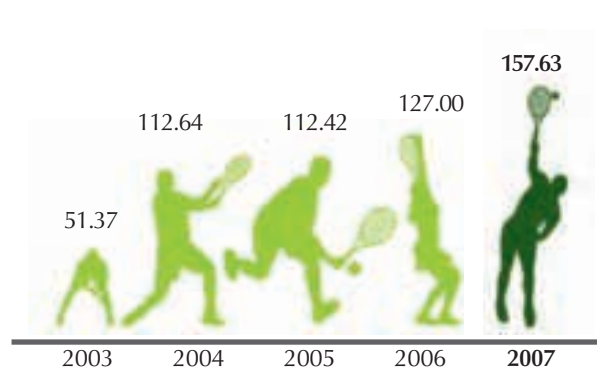
### EARNINGS PER SHARE — BASIC

(RMB cents)

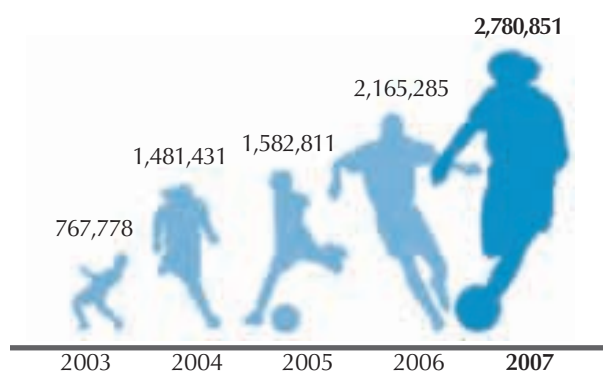


### NET TANGIBLE ASSETS PER SHARE

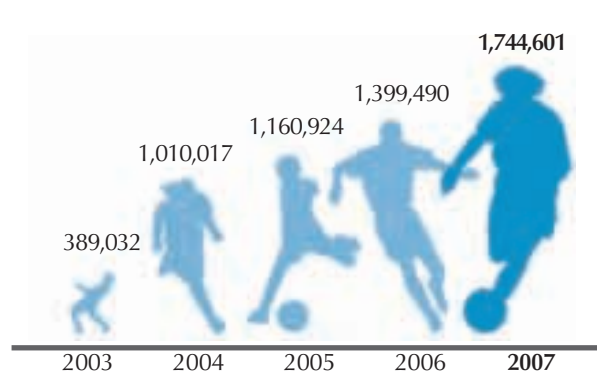
(RMB cents)

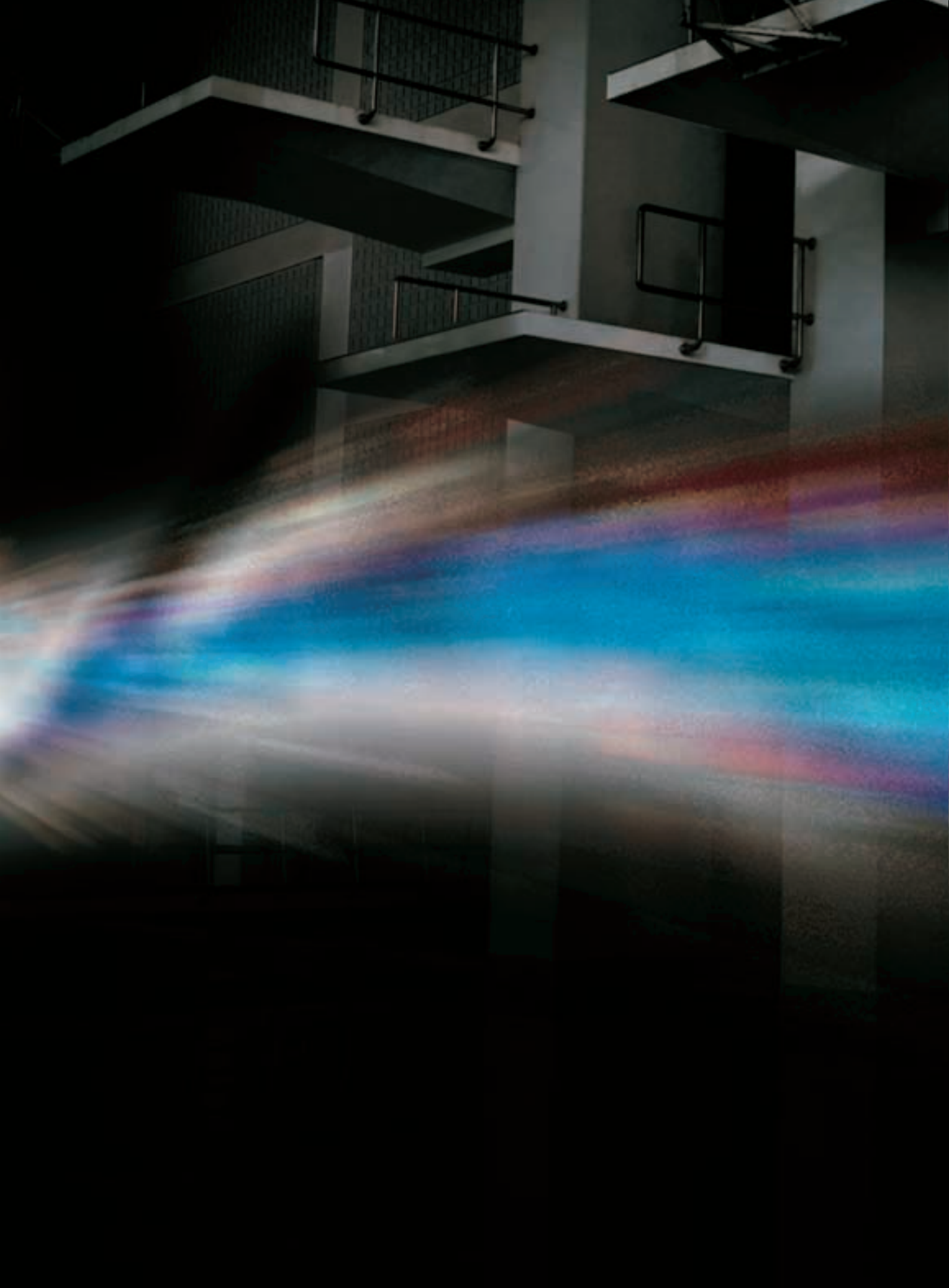


### TOTAL ASSETS



### EQUITY HOLDERS' EQUITY







# Championing confidence





# Chairman's Statement

Dear Shareholders,

## FORWARD

Staying true to our 2007 theme — “One Team, One Belief” — our team made tremendous strides to achieve excellence in all areas of our operations and outperformed our projections.

These results synchronized with China's high-speed economic growth at a time when nurturing of the country's domestic consumption sector became a focus of the economy. During the year, the Group fostered more opportunities for international co-operation, strengthened proprietary brand-building and intensified product research and development.

With the support of our management, our staff and our Shareholders, the Group achieved rapid growth and continued to build momentum as we move forward into 2008 and beyond. During the year, we gained significant ground in international brand expansion, made further inroads in our multi-brand business strategy, successfully developed and diversified our major product lines and continued to forge strategic partnerships with world-renowned organizations and athletes. These actions all helped add value to our brand and reinforced our leadership position in the PRC market.

The Group's deep roots and commitment to the principles of good sportsmanship have enabled the Group to take full advantage of the opportunities in China's consumer market in the run-up to the country's hosting of the Olympic Games in 2008. We have focused our efforts specifically in the areas of brand building, sales network expansion and product innovation.

In addition, the Group's continued efforts to improve transparency and corporate governance have helped us develop a high level of recognition and support from the investment community. This is also reflected in the ongoing confidence and support we have received from our Shareholders.

## CONTINUED FINANCIAL SUCCESS

Building on previous success, the Group continued to deliver strong financial performance during 2007 with revenue for the year rising 36.7% to RMB4,348.7 million. Profit attributable to equity holders increased by 60.6% to RMB473.6 million. Basic earnings per share increased by 60.0% to RMB45.83 cents.



Mr. LI Ning  
Chairman

Based on these distinguished results, I am delighted to report that the Board has recommended payment of a final dividend of RMB7.96 cents and a special dividend of RMB9.13 cents per Share.

## RAISING THE BAR, LIFTING THE BRAND

The Group is poised to take advantage of growing consumer interest in sportswear driven by the forthcoming Beijing Olympic Games by focusing on unique consumer dynamics in the China market in an effort to better compete with domestic and international brands that are active in China today.

In addition to intensifying efforts in advertising and promotion in the domestic market, we also dedicated more resources to sponsorships of overseas sports bodies including the Spanish Olympic Delegation and the Swedish Olympic Delegation. We have made remarkable progress in enhancing international recognition of our brand through our support of overseas sports teams and athletes. We have entered into agreements to provide sportswear sponsorship to the Spanish National Basketball Team and the Argentina Basketball Federation's men's and women's teams for all major events, including the Olympic Games, one of the world's top runners, Ethiopia's Ambesse Tolossa, and a top seeded player of the Association of Tennis Professionals (ATP), Ivan Ljubicic of Croatia.

In the domestic market, we continued to support China's home-grown heroes by sponsoring the four gold-medal winning national teams, namely, the Gymnastics, Diving, Table Tennis and Shooting Teams in order to boost the LI-NING brand recognition through the Beijing Olympic Games.

We also maintained diversified marketing campaigns in several other key sports areas, including basketball, soccer and tennis.



### FAST EXPANDING DISTRIBUTION NETWORK AND STRONG R&D CAPABILITY

Our distribution network continued to expand and the number of LI-NING brand outlets in China has reached 5,233. We are further committed to strengthening our brand through the launch of flagship stores and fourth-generation retail stores, thereby offering an enhanced shopping experience for consumers.

Meanwhile, the Group continued to strengthen research and development of new product lines, focusing on delivery of highly competitive sports products. Footwear products that incorporated our "LI-NING BOW" (李寧弓) anti-shock technology were well-received by consumers. We shall apply this technology to a wider range of footwear products. Moving forward we shall continue to strengthen our research and development and design capabilities, an initiative that we believe will create more demand and drive growth in sales.

### MULTIPLE-BRANDS FOR SUSTAINABLE GROWTH

Though the LI-NING brand remains our core brand, we are fully committed to our ongoing multi-brand strategy. In this regard we have entered into agreements with the Association of Tennis Professionals (ATP) and Shaquille O'Neal, and entered into a joint venture with renowned French outdoor sports brand AIGLE. In addition, we also launched a new sub-brand, Z-Do in 2007, in order to offer a more diversified product range to satisfy the demand of consumers.

In November 2007, the Group announced the acquisition of a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. (上海紅雙喜股份有限公司) ("Double Happiness"). Double Happiness is a market leader in table tennis equipment and is well-known throughout China. The acquisition not only supports the Group's multi-brand business strategy, but also strengthens our position in the fast growing table tennis and indoor sports markets.

### BUILDING TRUST AND TRANSPARENCY

We are committed to continuous improvement of the Group's corporate governance and transparency to ensure healthy business development and to enhance the LI-NING brand value. During the year, the Group continued to strengthen its internal control systems as part of our ongoing improvement efforts.

In acknowledgment of our efforts in corporate governance, the Company was granted two high-profile awards during the year. The Company was awarded the "Directors of the Year Award 2007 — Board Category" by The Hong Kong Institute of Directors and The Chartered Institute of Management Accountants named the Company the "CIMA 2007 Quality Employer Partner".

In a research report by CLSA Asia Pacific Market released in May 2007, the Company was rated the number one China company in corporate governance, a position we strive to maintain and improve constantly.





## GOING THE EXTRA MILE

Looking forward, the future of the PRC's sports goods market is bright and, therefore, it is also certain to attract much fiercer competition. The Group will continue to focus on four major business strategies, namely, branding, network, products and supply chain management in order to enhance its competitive edge.

The Group's marketing activities will continue to support the multi-brand business strategy and to offer an even greater variety of products. To strengthen market position and sustain growth, we shall roll out our brand-building nationwide and leverage the growing consumer enthusiasm fostered by the Olympic Games.

The Group's retail network will be further expanded throughout China as we open up more retail stores and deepen the penetration of our products. In metropolitan and first-tier cities we shall focus on strengthening our sales efforts by enhancing brand image and store efficiency. At the same time we shall increase our network penetration in second- and third-tier cities to embrace opportunities offered by the rapid growth in these markets.

In addition, our specially constructed "Li Ning City" in Beijing has already commenced its operations. As our new headquarters and operating centre, Li Ning City offers a research and development centre, showrooms, exhibition halls, sports facilities and venues for trade fairs. We believe that not only will Li Ning City enhance our operating capability and efficiency, it also contributes to our overall brand value.

Now and in the future, the Group will continue to uphold its mission, vision and core values in order to sustain the growth and success that we accomplished in the past years. These include being a leader in the sports industry, offering internationally recognized sports products and inspiring people to pursue excellence and fulfillment through sports.

I would like to convey my deepest gratitude to everyone that has been involved with the excellent results of the Group in 2007. It was through the contributions and support of the management, staff, partners, customers and our Shareholders that we have been able to reach such heights.

**Li Ning**  
*Chairman*

Hong Kong, 18 March 2008







# Winning by fundamentals





# Management Discussion and Analysis

The Group's business objectives for the year 2007 were to continue to grow and strengthen its core business under the LI-NING brand, while developing a multi-brand structure that leveraged on this core business. The Group pursued these objectives to ensure steady profit growth and continuous value creation, so as to maximize benefits for the Shareholders.

Leveraging on the robust consumer spending resulting from increases in per capita income and enthusiasm for the Beijing 2008 Olympic Games, the Group continued to increase sales and profitability steadily in 2007 through the strengthening of its brand marketing, product research and development, sales channel and supply chain management capabilities.



Mr. ZHANG Zhi Yong  
Chief Executive Officer

## FINANCIAL REVIEW

Key results and financial indicators of the Group for the year 2007 are summarized as follows:

	Year ended 31 December 2007	2006	Change (%)
<b>Items of income statement (audited)</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	4,348,747	3,180,543	36.7
Gross profit	2,082,846	1,508,552	38.1
Operating profit	609,855	402,518	51.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	681,764	438,407	55.5
Profit attributable to equity holders	473,606	294,846	60.6
Basic earnings per Share (RMB cents) (Note 1)	45.83	28.65	60.0
<b>Key financial ratios (audited)</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	47.9	47.4	
Operating profit margin (%)	14.0	12.7	
Effective tax rate (%)	23.4	26.4	
Margin of profit attributable to equity holders (%)	10.9	9.3	
Return on equity holders' equity (%)	30.1	23.0	
<b>Asset efficiency ratios</b>			
Average inventory turnover (days) (Note 2)	70	70	
Average trade receivables turnover (days) (Note 3)	53	55	
Average trade payables turnover (days) (Note 4)	69	67	
<b>Asset ratios</b>			
Debt to equity ratio (%) (Note 5)	59.4	53.5	
Net asset value per share (RMB cents)	168.53	137.38	

Notes:

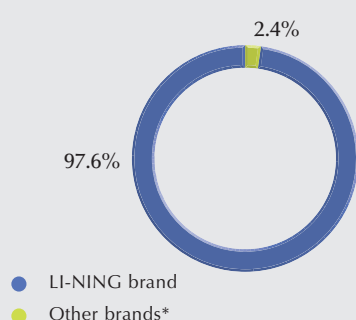
1. The calculation of basic earnings per Share is based on the profit attributable to equity holders for the year ended 31 December 2007 of RMB473,606,000 (2006: RMB294,846,000) and the weighted average of 1,033,343,000 Shares in issue less Shares held for the Restricted Share Award Scheme during the year (2006: 1,029,030,000 Shares).
2. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.
3. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables divided by revenue and multiplied by 365 days.
4. 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.
5. The calculation of debt to equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.

# Management Discussion and Analysis

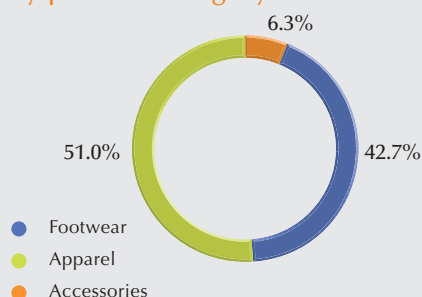
## Revenue

The Group's revenue for the year 2007 continued to rise at a remarkable level and reached RMB4,348,747,000, representing a growth of 36.7% as compared to 2006.

Percentage of revenue by brand



Percentage of revenue by product category



Revenue breakdown by brand and product category

	2007		2006		Revenue growth rate (%)
	RMB'000	% of total revenue	RMB'000	% of total revenue	
<b>LI-NING brand</b>					
Footwear	1,823,140	41.9	1,250,956	39.3	45.7
Apparel	2,151,557	49.5	1,673,924	52.7	28.5
Accessories	269,690	6.2	243,165	7.6	10.9
<b>Total</b>	<b>4,244,387</b>	<b>97.6</b>	<b>3,168,045</b>	<b>99.6</b>	<b>34.0</b>
<b>Other brands*</b>					
Footwear	35,928	0.8	1,663	0.1	2,060.3
Apparel	66,038	1.5	10,730	0.3	515.5
Accessories	2,394	0.1	105	0.0	2,173.1
<b>Total</b>	<b>104,360</b>	<b>2.4</b>	<b>12,498</b>	<b>0.4</b>	<b>735.0</b>
<b>Overall</b>					
Footwear	1,859,068	42.7	1,252,619	39.4	48.4
Apparel	2,217,595	51.0	1,684,654	53.0	31.6
Accessories	272,084	6.3	243,270	7.6	11.8
<b>Total</b>	<b>4,348,747</b>	<b>100.0</b>	<b>3,180,543</b>	<b>100.0</b>	<b>36.7</b>

\* Including the Z-DO brand and the AIGLE brand

The Group's core brand, the LI-NING brand, contributed to most of the revenue and accounted for 97.6% of the total revenue, reaching RMB4,244,387,000, which represents an increase of 34.0% as compared to 2006. The steady increase in revenue was attributable to (i) continuous enhancement in marketing efforts which integrate products, market and retailing as a whole; (ii) sales-driven product planning to better cater to geographic-specific demands; (iii) maintaining good sales network coverage; (iv) improvements in efficiency and growth of retail stores of all market tiers; and (v) continuous enhancements in supply chain management during the year.

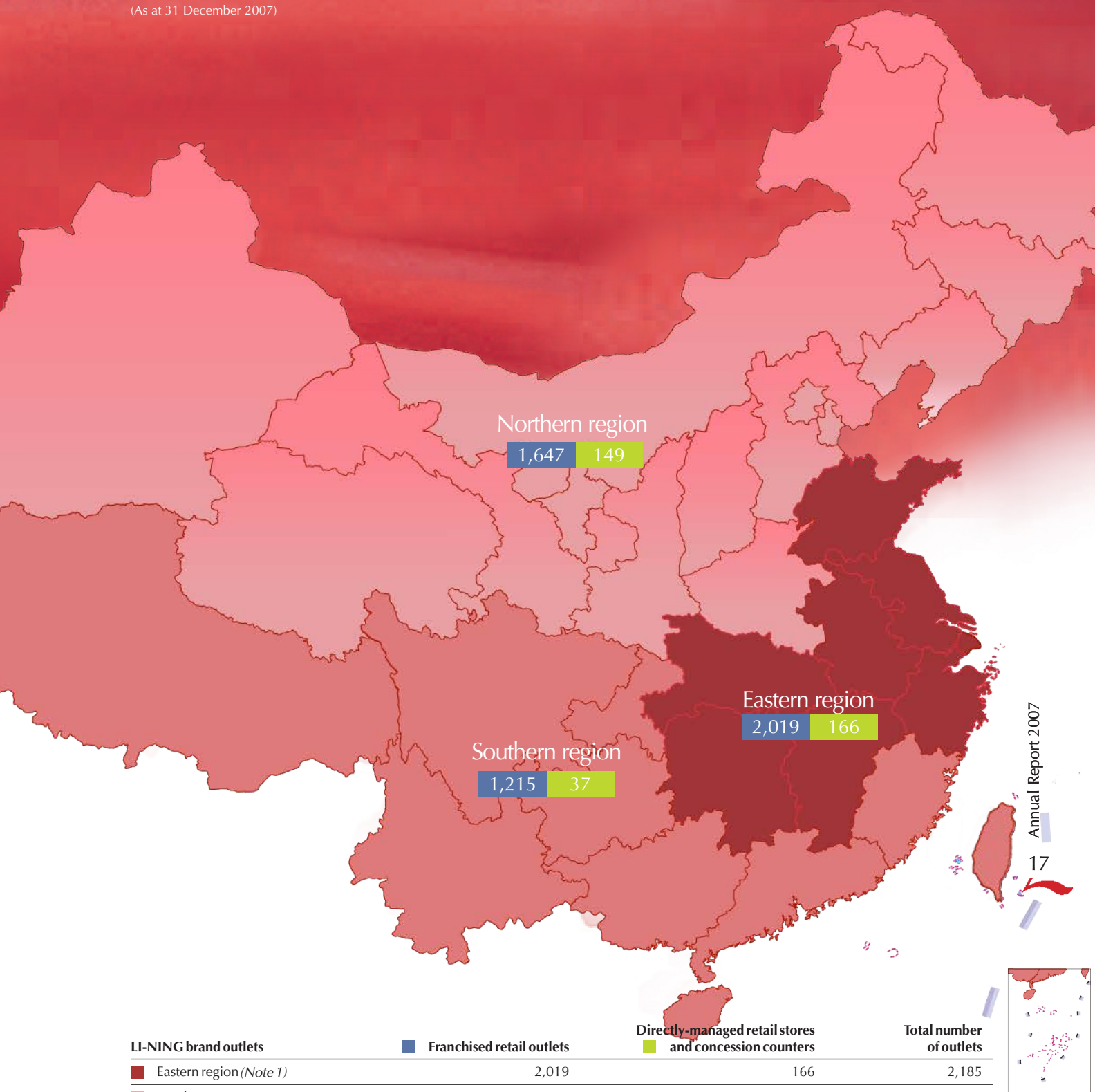
LI-NING branded products focus on five key sports activities, namely, running, basketball, football, tennis and fitness, and the product portfolio encompasses professional sports and casual footwear, apparel and accessories. During the year, the enhancements in the brand's professional image and the marked improvements of technologically-advanced elements in the product design have boosted the sales of footwear products by 45.7% as compared to 2006. Benefiting from geographic-specific product planning and integrated marketing efforts, apparel products recorded a 28.5% growth. As sports apparel products lack distinct differentiation in terms of functionality, and because of more intense market competition, the growth of sports apparel products was less pronounced than that of footwear products. Accessories products recorded a 10.9% growth.

The Group's other brands, the Z-DO brand and the AIGLE brand, accounted for 2.4% of total revenue, amounting to RMB104,360,000. Targeting primarily the hypermarket sector, the Z-DO brand was launched in April 2007. The AIGLE brand specializes in outdoor sports and casual apparel and footwear products.



## Nationwide Distribution and Retail Network

(As at 31 December 2007)



### Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

# Management Discussion and Analysis

英雄聚首 剑指2008  
李宁公司2008奥运战略发布会

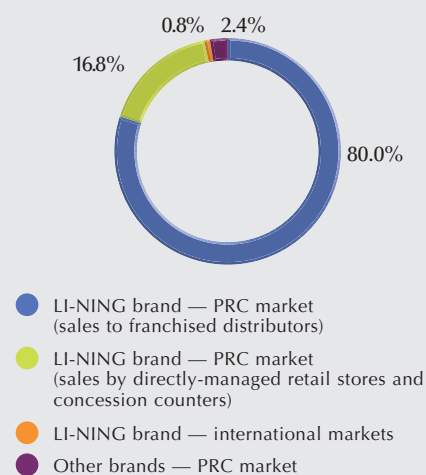


## Percentage of revenue by sales channel

	Year ended 31 December	
	2007 % of total revenue	2006 % of total revenue
<b>LI-NING brand</b>		
PRC market		
Sales to franchised distributors	80.0	80.4
Sales by directly-managed retail stores and concession counters	16.8	18.3
International markets	0.8	0.9
<b>Other brands*</b>		
PRC market	2.4	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* Including the Z-DO brand and the AIGLE brand

## Revenue breakdown by sales channel



The Group adopts a multi-pronged retail model with its products mainly sold through franchised distributors. The Group also distributes the LI-NING and the AIGLE branded products through directly-managed retail stores and concession counters.



## Revenue breakdown by geographical location

		Year ended 31 December				
Note	2007		2006		Revenue growth rate (%)	
	RMB'000	% of total revenue	RMB'000	% of total revenue		
LI-NING brand						
PRC market						
Eastern region	1	1,700,074	39.1	1,344,835	42.2	26.4
Northern region	2	1,613,568	37.1	1,077,390	33.9	49.8
Southern region	3	897,756	20.6	717,885	22.6	25.1
International markets		32,989	0.8	27,935	0.9	18.1
Other brands*						
PRC market		104,360	2.4	12,498	0.4	735.0
Total		4,348,747	100.0	3,180,543	100.0	36.7

\* Including the Z-DO brand and the AIGLE brand

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.



# Management Discussion and Analysis

LI-NING branded products are sold through an extensive and scalable distribution and retail network, which covers all of the PRC's provinces and municipalities. The majority of the Group's retail outlets are concentrated in second- and third-tier cities, which are markets with the highest potential for future growth. The AIGLE brand and the Z-DO brand are targeted at metropolitan and first-tier cities.

## Cost of Sales and Gross Profit

In 2007, the cost of sales of the Group amounted to RMB2,265,901,000 (2006: RMB1,671,991,000) and overall gross profit margin of the Group was 47.9% (2006: 47.4%). During the year, the Group streamlined its procurement system and thereby improved procurement efficiency. Such measures together with a reasonable pricing strategy, allowed the Group to maintain its gross profit margin levels in spite of keen market competition.

## Distribution Costs and Administrative Expenses

In 2007, the Group's distribution costs amounted to RMB1,221,619,000 (2006: RMB900,865,000). This accounted for 28.1% of the Group's total revenue, representing a decrease of 0.2 percentage points as compared to 28.3% in 2006. Spending on advertising, sponsorship, marketing, transportation and logistics continued to increase at higher rates in order to cover ongoing requirements for brand promotion and the increases in related costs for transportation during the year. On the other hand, due to the Group's overall effective management of expenses, the increase in salaries and benefits of sales staff, and retail store rental and renovation costs was stable.

Administrative expenses of the Group for the year amounted to RMB282,357,000 (2006: RMB234,730,000), which mainly comprised Directors' and staff costs, management consulting expenses, basic research and development expenses, office rental and depreciation of office premises. Administrative expenses accounted for 6.5% of the Group's total revenue, representing a decrease of 0.9 percentage points as compared to 7.4% in 2006. Such decrease was mainly a result of the Group's greater economies of scale and the stable staff expenses.

## Operating Profit

Operating profit of the Group for the year amounted to RMB609,855,000, representing an increase of 51.5% as compared to RMB402,518,000 in 2006. Benefiting from efforts in controlling the gross profit margin of products and effective integrated management of expenses, the operating profit margin of the Group amounted to 14.0%, an increase of 1.3 percentage points as compared to 2006.

## Income Tax Expense

Income tax expense for the year was RMB144,535,000 (2006: RMB106,090,000). The effective tax rate was 23.4% (2006: 26.4%).

## Provision for Inventories

The Group's policy in respect of provision for inventories in 2007 remained the same as that in 2006. Inventories 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 provision for inventories.

As at 31 December 2007, accumulated provision for inventories was RMB51,487,000 (31 December 2006: RMB26,869,000). In order to support continuous sales expansion, the Group has adjusted upwards the level of inventories, resulting in an increase in provision for inventories as at the end of the year.



## Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts in 2007 remained the same as that in 2006.

As at 31 December 2007, the accumulated provision for doubtful debts was RMB4,809,000 (31 December 2006: RMB8,720,000). The decrease in the accumulated provision for doubtful debts was due mainly to effective credit control as well as the writing off of trade receivables of RMB6,785,000 during the year.

## Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year 2007 amounted to RMB392,924,000 (2006: RMB293,390,000). As at 31 December 2007, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of not more than three months) amounted to RMB849,887,000, representing a net increase of RMB11,020,000 as compared with the position as at 31 December 2006. The increase was brought about by the following items:

Items	Year ended 31 December 2007	
	RMB'000	
Net cash inflow generated from operating activities	392,924	
Net capital expenditure	(237,635)	
Net cash outflow for acquisition of additional interests in Guangdong Li Ning	(17,817)	
Prepayment for acquisition of Double Happiness	(66,588)	
Dividends paid	(138,410)	
Bank borrowings	100,000	
Other net cash outflow	(18,551)	
Exchange loss on cash and cash equivalents	(2,903)	
Net increase in cash and cash equivalents	11,020	



# Management Discussion and Analysis



The Group is in a strong liquidity position with sufficient standby banking facilities to cope with the funding needs arising from daily operations and future developments. As at 31 December 2007, the Group's available banking facilities amounted to RMB400,000,000. As at 31 December 2007, the Group had outstanding bank borrowings of RMB100,000,000 and the outstanding bank borrowings to equity holders' equity ratio was 5.7% (31 December 2006: nil).

As at 31 December 2007, the Group did not hedge its exposure to interest rate risks.

## Foreign Exchange Risk

The Group carries out its operation in the PRC, with most transactions settled in Renminbi. A small amount of the Group's cash and bank deposits are denominated in Hong Kong Dollars or United States Dollars. The Group pays dividends in Hong Kong Dollars when dividends are declared. In addition, the Group pays certain license fees and other payables in United States Dollars. Any significant exchange rate fluctuations of foreign currencies against the Renminbi may have a financial impact on the Group.

## Pledge of Assets

As at 31 December 2007, no asset of the Group was pledged to secure bank borrowings or for any other purpose.

## Contingent Liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

## BUSINESS REVIEW

In 2007, the Group set out different strategic positions and goals for markets in different regions of the PRC. Through active efforts in marketing and brand promotion, product research and development, sales channel expansion and management, and supply chain management, the Group sought to achieve rapid growth of its core business under the LI-NING brand. It also endeavoured to establish a multi-brand structure to develop new businesses.

## Marketing and Brand Promotion

During the year, the Group continued to allocate considerable resources towards implementing diversified integrated marketing strategies to further differentiate and enhance the LI-NING brand. The Group has abundant sponsorship and brand marketing resources. In the PRC, we have ongoing sponsorships of the four national gold-medal winning teams, namely the Gymnastics, Diving, Table Tennis and Shooting Teams. On the international front, the Group continued in its role as the sponsor of the Spanish Basketball Team and the official marketing partner in the PRC for the Association of Tennis Professionals (ATP). It also maintained the partnership with renowned National Basketball Association (NBA) star, Shaquille O'Neal, for the co-branded "LI-NING-SHAQ" basketball products. At the same time, the Group has accelerated its marketing efforts to take advantage of anticipated consumer enthusiasm for the forthcoming Beijing 2008 Olympic Games, which provides an unprecedented opportunity to boost sales in China and propel the international profile of the LI-NING brand. The key marketing and brand promotion events executed by the Group during the year and subsequent to the reporting period are summarized below.

## Co-operation with the CCTV National Sports Channel

The Group has a long history of co-operation with the CCTV. During the year, the Group entered into an agreement with the CCTV National Sports Channel under which all of the hosts, news presenters and reporters on all of the programs and tournaments broadcast on the CCTV National Sports Channel (including the 2008 Olympics Channel) will wear LI-NING branded products. CCTV National Sports Channel is the most influential professional sport channel in mainland China and broadcasts the largest number of international sports competitions and tournaments to the largest audience. The Group will leverage the sports channel as a platform to fully promote the international and professional image of the LI-NING brand.





## Collaboration with International Olympic Delegations

The Group has signed an agreement with the Swedish Olympic Committee to act as the Swedish Olympic Delegation's official sportswear provider. The Group is also authorised by the Swedish Olympic Committee to sell Olympics related products in Sweden. This means that the LI-NING brand will appear in a variety of the Swedish Olympic Committee's Olympic related promotional events in Sweden. During the year, the Group also became an official partner of the Spanish Olympic Committee and the official sportswear provider for the Spanish Olympic Delegation. Joining hands with international Olympic delegations for the Beijing 2008 Olympic Games is one of the Group's key strategies in brand internationalization and represents yet another breakthrough for our efforts in sports marketing.

## Launched the "Olympic Champions" Exhibitions

In June 2007, the Group launched the "Olympic Champions" Exhibition in Changchun. This exhibition was subsequently held in 15 major and Olympic event-holding cities, including Beijing, Shanghai, Guangzhou, Wuhan, Hangzhou, Qinhua Island, Shenyang, Chengdu, Xi'an and Nanjing. Numerous Chinese Olympic champions were invited to the exhibitions to spread the Group's Olympic ideals. This program successfully linked consumer awareness of the Olympic Games to the LI-NING brand, thus strengthening our brand reputation and recognition.

## Unveiling the "Hero" 2008 Olympics Strategies

In November 2007, numerous Olympics heroes attended a press conference where the Group unveiled its 2008 Olympics strategy, which includes three major plans, namely "Hero Team", "Hero Gesture" and "Hero Triumph" under the theme of "Hero". The initiative demonstrated the wisdom and vision of the Group as a forerunner amongst the Chinese sports brands. Based on the Olympic strategy involving the Group-sponsored "Hero Team," a series of sales and marketing campaigns are now running at full steam, effectively boosting the brand image.

# Management Discussion and Analysis

## Sponsorships of Established International Sports Teams

Having signed on the Spanish National Basketball Team, the Group also entered into a strategic partnership agreement with the Argentina Basketball Federation (Confederación Argentina de Básquet) to become the official partner of the Argentina Basketball Federation and the official sportswear sponsor for both the men's and women's national basketball teams in Argentina. On the track and field front, apart from its collaboration with Sudan National Track and Field Team and the sponsorship of world-renowned Ethiopian marathon runner, Ambesse Tolossa, the Group embarked on a program to sponsor sportswear to the Tanzanian National Track and Field Team. All these alliances have enabled the Group to realize huge advances in sports marketing and prove that LI-NING branded professional sportswear have won wide recognition among the world's top sports teams.

## Signing on Ivan Ljubicic

The Group signed on Ivan Ljubicic, who is the President of the Association of Tennis Professionals (ATP) Player Council and a world-renowned tennis player. By signing a top-rank international professional player, the Group has secured important sports marketing resources that effectively help it to open a new phase of development in the field of tennis.

## Principal Sponsor for Asian Indoor Games

The Group became the principal sponsor and exclusive sportswear supplier for the Second Asian Indoor Games held in Macau in October 2007. The Asian Indoor Games consists of a series of indoor events which are not included in the Olympic Games or Asian Games. The Indoor Games combines leisure with entertainment, helps to strengthen the development of sports exchanges in Asia and encourages young people in Asia to proactively participate in various sports activities. This is our first attempt to sponsor a sports event of such a nature. Our intention is to bring about greater awareness of the LI-NING brand amongst consumers through leisure activities and entertainment.

## Community Marketing Events

Apart from its ongoing sponsorship of the China University Basketball Association (CUBA), one of the top three basketball tournaments in China, and the China University Football League (CUFL), the Group also supported and held a wide range of events targeting sports enthusiasts and young people in the PRC. These included nation-wide junior secondary school basketball events, the LI-NING Chinese Basketball Selection Camp, LI-NING "3+1" Basketball Tournament and "iRun out of line". We firmly believe that focusing marketing and promotional initiatives on our primary group of existing as well as potential consumers will have a profound and positive effect on the Group's brand building drive and long-term development.

## Sponsorship of the USA National Table Tennis Team

In early 2008, the Company and the American Table Tennis Association announced the Group's sponsorship of the USA national table tennis team. During the term of co-operation, the USA national table tennis team will wear LI-NING branded sportswear in various major tennis table events and tournaments, including the Beijing 2008 Olympic Games. This is the first time a USA national team will wear a Chinese brand for the Olympic Games. The sponsorship ushers in a new epoch in the exchanges and co-operation in the field of table tennis between the PRC and the USA.





## Product Design and Research and Development

The Group continuously strives to develop and design innovative products, which is at the heart of our strategy to face competition and to establish a distinct professional brand image, thus paving the way for internationalization. The Group has set up research and development centers in both mainland China and Hong Kong, each of which is staffed with excellent product development and design teams. It also collaborates with renowned education institutions and professional organizations for research and development initiatives. During the year 2007, the Group established a design center in Portland, Oregon in the United States in a bid to further enhance its product design capabilities. By amalgamating the talents of local designers, the design center helps the Group to keep abreast of the latest trends in sports shoe design.

During the year 2007, the Group successfully incorporated its core patented “LI-NING BOW” (李寧弓) anti-shock technology into its footwear products. The “BOW” series attains high anti-shock capability amongst similar products on the market and is on par with its rivals in terms of overall technology. Following the successful introduction of the “BOW” series of running shoes, the “BOW” basketball series was also launched. The “BOW” series, which combines high technology with contemporary and oriental design elements, achieved excellent results with high retail price and large volume of orders. Our fourth-generation super-light and ventilated running shoes with contemporary and oriental design have been improved over the previous three generations by adopting a traditional Chinese sparrow structure. The series also received a very positive response from the market immediately after its launch.



# Management Discussion and Analysis

Shortly after our “Flying Armor” (飛甲) basketball shoes won the “iF China 2006 Industrial Design Award”, the “Flying Armor II” (飛甲 II) basketball shoes were also named the “2007 Most Successful Product Design” by the Chinese edition of Forbes magazine, an international magazine. “Flying Armor II” is the only sports shoe brand to have won this honour. The excellent design and perfect functions of another basketball footwear products of the Group, “Banpo” (半坡), won the “Entertainment and Style” category in the 2007 “iF Design Awards”, known as the Oscars of industry design. “Banpo” was also the only footwear product to have won the “2007 China Innovative Design Red Star Award”, China’s most authoritative award for industry design. All these awards demonstrate the top design quality of the LI-NING branded products.

To introduce higher quality and performance to its apparel products, the Group adopted advanced technology from South Korea and collaborated with suppliers of essential material to develop the AT DRY SMART technology. Sales fairs for the products drew strong positive response from distributors. AT DRY SMART technology protects products from drizzle and dries out sweat quickly. It is further enhanced by super-light material, two-sided ventilation, antiseptic and anti-UV features. This technology will be applied to apparel products used in the Beijing 2008 Olympic Games.

The Group consistently searches out and adopts high technology for development of new products. It also instills elegant oriental elements into product design in its constant pursuit for a perfect balance of product quality and stylish appearance. In the future, the Group will continue to refine its research and development ability and produce fashionable products of the highest professional and technological standard so as to further enhance LI-NING brand’s core competence.

## Sales Channel Expansion and Management

During the year 2007, the Group implemented the following measures to expand and manage sales channels for the LI-NING brand:

- Actively sought out appropriate locations for setting up of flagship stores, thereby efficiently increased the market influence of the LI-NING brand and boosted sales;
- Continued to expand its sales channel coverage. Development of sales channel in second- and third-tier cities was satisfactory, accounting for 57.9% of the new stores for the year;
- Further improved the development of the distribution sales representative team and established a nation-wide store visit mechanism to strengthen services to and promote closer contact with distributors and retail stores; and
- Boosted retail capabilities and improved the structure of retail management teams so as to improve store efficiency. During the year, the efficiency and growth rate of retail stores in all market tiers exceeded preset targets, especially the second- and third-tier markets which showed particularly notable growth.

As at 31 December 2007, the domestic distribution and retail network of the Group’s various brands comprised:

- Approximately 244 distributors operating a total of 5,301 franchised retail outlets under the LI-NING brand, the Z-DO brand and the AIGLE brand across the PRC; and
- A total of 375 directly-managed retail stores and concession counters under the LI-NING brand and the AIGLE brand in Beijing, Shanghai and 13 provinces in the PRC.



## Number of franchised and directly-managed retail stores

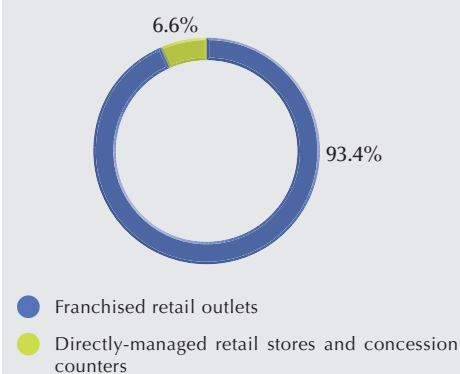
	As at 31 December		
	2007	2006	Change
Franchised retail outlets	5,301	3,875	1,426
Directly-managed retail stores and concession counters	375	458	(83)
<b>Total</b>	<b>5,676</b>	<b>4,333</b>	<b>1,343</b>

The number of retail stores of the Group has been increasing steadily. The total number of retail outlets as at 31 December 2007 was 5,676, which represents a net increase of 1,343 stores for the year. The number of LI-NING brand retail stores was 5,233, a net increase of 936 stores during the year.

During the year, the Group continued to restructure the directly-managed retail business of the LI-NING brand. The restructuring involved releasing over 117 retail stores under the Group's regional subsidiary companies to competent distributors. By doing so, the Group has further enhanced its sales management and can better focus on retail operations of its flagship stores and factory outlets which are brand-building related.

In addition, 724 LI-NING brand stores were renovated into fourth-generation stores during the year.

Percentage of retail stores by sales channel



## Supply Chain Management

The Group is devoted to reforming the traditional supply chain model by adopting a demand-driven approach. As set out below, the Group continued to adopt a flexible and effective supply chain management strategy that enabled it to respond to market changes in an efficient and timely manner during the year 2007:

- Ten large-scale sales fairs of various brands were organized for distributors to shorten the cycle time between product development and order placements;
- Set up the apparel sample technology and market-driven supply chain center in Guangdong;
- With a high growth rate of sales, the average inventory turnover was maintained at a reasonable level of 70 days, same as that in 2006;
- Implemented good credit control and improved management of receivables, which resulted in shortening the average trade receivables turnover from 55 days in 2006 to 53 days; and
- Fully utilized the suppliers' credit terms, which resulted in the average trade payables turnover increased from 67 days in 2006 to 69 days.

The Group also restructured and refined the purchasing process during the year and thereby improved overall purchasing efficiency and reduced the cost of purchasing.

## Multi-brand Business Development

While cementing the core LI-NING brand to achieve sustainable growth, the Group has strived to develop its multi-brand business. Apart from the co-brands with ATP and SHAQ, the Group also manages the Z-DO brand and the AIGLE brand.

### Z-DO Brand

In April 2007, the Group officially launched its new series of products under the Z-DO brand, a subsidiary brand of the LI-NING brand, which utilizes hypermarkets as its primary sales channel. Since its market debut, the Z-DO brand achieved enviable sales results and its network coverage has progressed well. As at 31 December 2007, the Z-DO brand was present in 119 cities, with 58 distributors and 400 stores.

The development of the Z-DO brand not only sets new sales models and establishes new sales networks, but also efficiently utilizes the Group's supply chain to benefit from greater economies of scale. Complementing the LI-NING brand, the future development of the Z-DO brand will focus on building a clear brand position and image, broadening the product line and expanding the sales network to achieve rapid business growth.





## AIGLE Brand

The joint venture established by the Group and AIGLE of France commenced operation in the first half of 2006 but business performance has not been very satisfactory. As at 31 December 2007, a total of 43 AIGLE stores had been opened in the PRC. AIGLE's future business development will focus on product portfolio adjustment, price setting and localization of the supply chain in order to promote store efficiency and sales.

## Acquisition of the Remaining Interest in Guangdong Li Ning

On 10 May 2007, the Group acquired from Guangdong Jianlibao Group Co., Ltd. (廣東健力寶集團有限公司) its remaining 20% equity interest in Guangdong Li Ning Sports Development Co., Ltd. (廣東李寧體育發展有限公司) ("Guangdong Li Ning") at a consideration of approximately RMB17,817,000. As a result of the acquisition, Guangdong Li Ning became the Group's wholly-owned subsidiary. The acquisition accelerated the Group's strategy in developing Guangdong Li Ning as the apparel sample technology and market-driven supply chain center of the Group.

## Acquisition of Double Happiness

On 15 November 2007, the Group announced its acquisition of a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. (上海紅雙喜股份有限公司) ("Double Happiness") at a consideration of RMB305,325,000 (the "Acquisition"). The completion of the Acquisition shall take place upon compliance with the applicable transfer and registration procedures under the PRC law to enable the 57.5% equity interest in Double Happiness to be transferred to the Group. As of the date of this annual report, the Acquisition has not been completed. Upon completion of the Acquisition, Double Happiness will become a non-wholly owned subsidiary of the Group.

Double Happiness, which specializes in the manufacture, research and development, marketing and sale of table tennis and badminton equipment, is known internationally for its high quality table tennis products. Its brands include the renowned "Double Happiness" brand and other brands. Double Happiness supplies equipment for international table tennis events and athletes. It will also be the supplier of such events in the Beijing 2008 Olympic Games. The Acquisition will enable the Group to strengthen its position in the flourishing table tennis market in the PRC. It will also further promote the professional image of the LI-NING brand and support the Group's multi-brand strategy. In the future, the LI-NING brand and the Double Happiness brand will benefit from the synergies of brand promotion, marketing, events sponsorship and improvement of sales channels, which will become a new force for the Group's future growth.



## ENHANCEMENT OF THE INFORMATION SYSTEM

To support the management of its various business operations, the Group committed considerable resources to ramping up its information management systems. The fundamental structure of the Group's management information system and the operating platform have been well established.

The Group has established a trading system based on SAP, which is an integrated and comprehensive information system that accommodates financial management, sales management, supply chain management, decision-making supporting and information services. The system plays a key role in meeting the needs of business growth and significantly contributes to boosting operation and management efficiency, offering a good foundation for the Group's information automation.

## HUMAN RESOURCES

As at 31 December 2007, the Group had approximately 2,904 employees (31 December 2006: 2,365). The increase in the number of employees was mainly due to the hiring of a large number of technical and production personnel to cope with the development of the apparel sample technology and market-driven supply chain center in Guangdong. This has offset the decrease in sales staff resulting from the transfer of the directly-managed retail stores to distributors following the restructure of the Group's directly-managed retail business.

Our talent pool is one of the most important assets of the Group and the core strength which enables our sustainable development. The Group is devoted to offering a good working environment, a wide range of training and personal development programs as well as attractive remuneration packages to its employees in order to create long term incentives and to attract talented individuals. It endeavours to motivate staff with performance-based remuneration. In addition to a basic salary, employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, honorary awards or a combination of these to further align the interests of the employees and the Company.

The Group will continue to strengthen and improve its human resources management. Through staff recruitment and development, refining organizational structure and building the corporate culture, the Group will find support for its development to ensure its sustainable and rapid growth.



## OUTLOOK

In 2008, the Group will continue to invest in brand building, focus on sales network expansion and store efficiency enhancement so as to seek rapid and sustainable growth of the core business under the LI-NING brand. At the same time, the Group will also continue to adopt the multi-brand strategy in order to open new business fronts. This will enable the Group to increase its competitiveness and to add new components to propel future growth.

With the increasing purchasing power of the Chinese consumer, the increased demand for sports and leisure activities and the opportunities afforded by the Beijing 2008 Olympic Games, the prospects for China's sports product sector are both immense and bright. Meanwhile, strong enterprises in the industry are boosting their efforts in an attempt to expand market share, in anticipation of more intense competition in the industry in future as well as increased challenges and opportunities. The Group will continue to leverage its strengths, which include its market position as the PRC's leading sports brand, prudent business strategies and outstanding and professional management team. The Group will take all challenges in its stride and will grasp the opportunity brought about by the 2008 Olympic Games. It will do its utmost to increase the brand's competitiveness and bring forth new potential with innovation to bring its business to new heights and generate attractive returns for Shareholders and investors.









# Championing teamwork



# Corporate Governance Report

The Board recognizes their mission of creating value for and maximizing returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. As such, the Board strives to promote and uphold good corporate governance.

The Company complied with all the principles and code provisions and most of the recommended best practices of the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2007. The corporate governance practices adopted by the Company are summarized below.

## BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors has the responsibility for providing leadership and managing the Company and is 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 ten Directors:

Category and name of Director	Date of first becoming Director
<b>Executive Directors</b>	
Mr. Li Ning ( <i>Chairman</i> )	3 April 2004
Mr. Zhang Zhi Yong ( <i>Chief Executive Officer</i> )	6 May 2004
Mr. Tan Wee Seng ( <i>Chief Financial Officer</i> )	6 May 2004
<b>Non-executive Directors</b>	
Mr. Lim Meng Ann	6 May 2004
Mr. Stuart Schonberger	6 May 2004
Mr. Chu Wah Hui	1 June 2007
Mr. James Chun-Hsien Wei	1 September 2007
<b>Independent non-executive Directors</b>	
Mr. Koo Fook Sun, Louis	6 May 2004
Ms. Wang Ya Fei, Jane	6 May 2004
Mr. Chan Chung Bun, Bunny	6 May 2004





Mr. TAN Wee Seng  
*Chief Financial Officer*

Biographical details of the Directors are set out on pages 56 to 58 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 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 roles of the Chairman and the Chief Executive Officer are segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong, respectively. There is a clear distinction between the Chairman's responsibility for providing leadership for the Board and the Chief Executive Officer's responsibility for managing the day-to-day operations of the Group's business.

Each of the non-executive Directors and independent non-executive Directors has entered into or renewed his or her service contract with the Company for a term of three years commencing in 2007. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a highly conscientious and responsible manner. Non-executive Directors serve actively on Board committees to ensure that independent and objective views are expressed, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole.

The Company has appointed a sufficient number of independent non-executive Directors. 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 that all independent non-executive Directors are independent as required under the Listing Rules.

All Directors are 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 first general meeting after his or her appointment.

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers and reviews the scope of coverage of the insurance each year.

# Corporate Governance Report

## Responsibilities of the Board

While delegating authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management, the Board 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 objectives and strategies;
- approving strategic, operational and financial plans;
- approving financial statements and public announcements;
- setting the dividend policy; and
- committing to major acquisitions, disposal, formation of joint ventures and capital transactions.

## Responsibilities for Accounts

The Directors are responsible for preparation of the financial accounts of the Group 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 which disclose the financial position of the Group are kept at all times.

## Board Meetings

The Board holds at least four regular Board meetings a year at approximately quarterly intervals and additional Board meetings are held as and when necessary to discuss significant events or important issues. Regular 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. Directors are required to declare their direct or indirect interests, if any, in any matter to be considered at Board meetings and interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board meetings.



The Board held five meetings in 2007 and attendance of each Director at the meetings is set out below:

Members of the Board	Number of Board meetings attended	Attendance rate
<b><i>Executive Directors</i></b>		
Mr. Li Ning	5 out of 5	100%
Mr. Zhang Zhi Yong	5 out of 5	100%
Mr. Tan Wee Seng	5 out of 5	100%
<b><i>Non-executive Directors</i></b>		
Mr. Lim Meng Ann	5 out of 5	100%
Mr. Stuart Schonberger	5 out of 5	100%
Mr. Chu Wah Hui	4 out of 4 (Note 1)	100%
Mr. James Chun-Hsien Wei	2 out of 2 (Note 2)	100%
<b><i>Independent non-executive Directors</i></b>		
Mr. Koo Fook Sun, Louis	5 out of 5	100%
Ms. Wang Ya Fei, Jane	5 out of 5	100%
Mr. Chan Chung Bun, Bunny	3 out of 5	60%

Notes:

1. Mr. Chu Wah Hui was appointed as a non-executive Director on 1 June 2007. Four Board meetings were held during the period from 1 June 2007 to 31 December 2007.
2. Mr. James Chun-Hsien Wei was appointed as a non-executive Director on 1 September 2007. Two Board meetings were held during the period from 1 September 2007 to 31 December 2007.



## 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 Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The Committees are provided with sufficient resources to discharge their duties and report regularly to the Board, addressing major issues and findings, and making valuable recommendations to assist the Board in its decision making.

### Executive Committee

The Board has established the Executive Committee to enhance management efficiency since December 2004. The Executive Committee currently comprises four members, namely:

Mr. Zhang Zhi Yong ( <i>Chairman of the Committee</i> )	Executive Director & Chief Executive Officer
Mr. Li Ning	Chairman of the Board & Executive Director
Mr. Tan Wee Seng	Executive Director & Chief Financial Officer
Mr. Guo Jianxin	Chief Operating Officer

The Board has delegated the following duties to the Executive Committee:

- setting the Group's strategic, operational and financial plans for approval by the Board;
- examining and approving the strategic business directions at subsidiary level;
- examining and approving financial arrangements of member 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 has been established since June 2005 and currently consists of the following Directors, namely:

Mr. Lim Meng Ann ( <i>Chairman of the Committee</i> )	Non-executive Director
Mr. Koo Fook Sun, Louis	Independent non-executive Director
Ms. Wang Ya Fei, Jane	Independent non-executive Director
Mr. Chu Wah Hui ( <i>appointed on 28 August 2007</i> )	Non-executive Director

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 primary 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 based on certain criteria adopted by the Committee, including appropriate professional skills, knowledge and industry experience, personal ethics, integrity and skills and time commitment to the Board's affairs. The process ensures 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 twice in 2007 to discharge its responsibilities. Individual attendance of each members at the meetings is set out as follows:

Members of the Nomination Committee	Number of committee meetings attended	Attendance rate
Mr. Lim Meng Ann	2 out of 2	100%
Mr. Koo Fook Sun, Louis	2 out of 2	100%
Ms. Wang Ya Fei, Jane	2 out of 2	100%
Mr. Chu Wah Hui	N/A*	N/A*

\* The meetings had been held before Mr. Chu Wah Hui was appointed as a member of the Nomination Committee on 28 August 2007.

During the year, the Nomination Committee, through engagement of professional recruitment consultants and consideration of referrals, identified and recommended to the Board candidates suitably qualified to become a Board member based on the abovementioned criteria adopted by the Committee. Upon recommendation of the Nomination Committee, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei, both with profound knowledge and experience in brand-related business, were appointed by the Board as non-executive Directors with effect from 1 June 2007 and 1 September 2007, respectively. Every newly appointed Director received a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Company and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

## Remuneration Committee

The Remuneration Committee has been established since June 2004. 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 currently consists of following three Directors, namely:

Ms. Wang Ya Fei, Jane ( <i>Chairman of the Committee</i> )	Independent non-executive Director
Mr. Lim Meng Ann	Non-executive Director
Mr. Koo Fook Sun, Louis	Independent non-executive Director

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 four times in 2007. Individual attendance of the members at the meetings is set out as follows:

Members of the Remuneration Committee	Number of committee meetings attended	Attendance rate
Ms. Wang Ya Fei, Jane	4 out of 4	100%
Mr. Lim Meng Ann	4 out of 4	100%
Mr. Koo Fook Sun, Louis	4 out of 4	100%

The following is a summary of the major tasks attended by the Remuneration Committee in 2007:

- review of the Group's long-term incentive plan including, among others, granting of share options and restricted shares under the relevant share schemes of the Company;
- annual review and determination of remuneration packages for Directors and senior executives;
- review and determining of the bonus execution plan for year 2007 according to the key performance indicators for year 2007; and
- review and setting of salary and bonus structure for year 2008.

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 Group's corporate objectives and 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, share options and restricted shares. Remuneration of non-executive Directors (including independent non-executive Directors) includes mainly the director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors (including independent non-executive Directors) and the comparable market conditions. 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 attend meetings approving their own remuneration. The emoluments of each Director for the year ended 31 December 2007 are set out in note 25 to the consolidated financial statements.



## Audit Committee

The Audit Committee has been established since June 2004. Its role is to assist 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 auditor. 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 currently consists of the following three Directors, namely:

Mr. Koo Fook Sun, Louis ( <i>Chairman of the Committee</i> )	Independent non-executive Director
Mr. Stuart Schonberger	Non-executive Director
Ms. Wang Ya Fei, Jane	Independent non-executive Director

All members of the Audit Committee possess appropriate professional qualifications or accounting or related financial management expertise in discharging their responsibilities as members of the Audit Committee.

The Audit Committee met three times in 2007. The external auditor, Chief Executive Officer, Chief Financial Officer and the department heads of the Internal Audit Department and Accounting Management Department attended the meetings and provided necessary information and addressed questions from the Audit Committee. Individual attendance of each Audit Committee member at the meetings held in 2007 is set out as follows:

Members of the Audit Committee	Number of committee meetings attended	Attendance rate
Mr. Koo Fook Sun, Louis	3 out of 3	100%
Mr. Stuart Schonberger	3 out of 3	100%
Ms. Wang Ya Fei, Jane	3 out of 3	100%

The following is a summary of the work performed by the Audit Committee in 2007:

- review of and recommendation for the Board's approval of the 2006 annual financial statements and 2007 interim financial statements with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- discussion with the external auditor and the management on possible accounting risks;
- review of 2007 internal audit findings and recommendations and approval of 2008 internal audit plan;
- review of the effectiveness of the Company's internal control system;
- approval of the audit fees and terms of engagement of the external auditor; and
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor.

## EXTERNAL AUDITOR

For the year ended 31 December 2007, the total remuneration for the audit services provided by the external auditor amounted to RMB3,700,000 (2006: RMB3,120,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2007, the total remuneration for permissible non-audit services provided by the external auditor (including any entity under common control, ownership or management with the auditor) amounted to RMB1,406,000 (2006: RMB1,131,000). 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 auditor.

Prior to commencement of the audit of the 2007 accounts of the Company, the Audit Committee had received a written confirmation from the external auditor on their independence and objectivity.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 80 of this annual report.

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company's listing on the Hong Kong Stock Exchange in 2004. The re-appointment of PricewaterhouseCoopers as the external auditor of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

## INTERNAL CONTROL

### Control System

The Board and the management place great importance on and provide support to internal control. In 2005, with the assistance of professional consultants and based on the Group's experience in operations control over the years, the Company streamlined all major operational procedures by identifying major risks and formulating control measures necessary to reduce such risks, and put in place an integrated system of internal control. The system adopts the globally recognized framework outlined by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), with the Group's business, operational and financial risks, corporate culture and management philosophy being taken into account. The system is designed to achieve (i) effectiveness and efficiency of operations; (ii) enhanced reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system plays a key role in risk management and in safeguarding shareholders' investment and the assets of the Company. It serves to provide reasonable, though not absolute, assurance against material misstatement, fraud or loss.

The Group's internal control system features the following aspects:

- (1) A top-down organizational and management structure with clear-cut responsibilities and authorities, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board has the ultimate accountability and authority in internal control management. It is externally accountable to the Shareholders for corporate governance, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's internal control procedures and advising on the effectiveness thereof. Preliminary assessment on the effectiveness of internal control is conducted by the internal audit department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group (which is an executive team led by the Chief Executive Officer and the Chief Financial Officer being responsible for the daily internal control management), a coordination body (namely, the internal control work group, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organizing examination on the effectiveness of internal control and assessment of risks) and operational level (which are the units responsible for execution of internal control, including various operational and functional systems and departments who are responsible for the establishment, enhancement and effectiveness of internal control system).
- (2) Possession of an effective and forward-looking information system on operational, financial and accounting management, to support the supervision of implementation and performance of business strategies and plans. A rolling strategic plan of the Company 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 prioritized business opportunities. On-time and regular operational and financial reports are lodged with and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situations against the agreed annual operating and financial targets and to consider necessary action as well as to ensure such action being carried out promptly to remedy any significant failures or weaknesses.
- (3) Implementation since 1 January 2006 of the Internal Control Manual of Li Ning Company Limited, which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. The Internal Control Manual of Li Ning Company Limited will be updated at least once annually, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With the coordination of the internal control work group, the Internal Control Manual of Li Ning Company Limited was thoroughly reviewed, amended and updated by relevant departments during the year 2007 and the 2007 revised edition was issued and implemented on 29 December 2007. New internal control procedures will also be continuously formulated, including the introduction of those on human resources and intellectual property rights management during the year under review. At present, the manual covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources management, intellectual property rights and fixed assets management systems.



- (4) Establishment of an effective annual self-assessment and evaluation mechanism under the internal control framework, with satisfactory results and attaining the following goals:
- (i) assisting the Audit Committee and the Board in assessing the effectiveness of the Group's internal monitor system;
  - (ii) prompting personnel in key positions to review, evaluate and step up the implementation of internal control regarding their areas of duties; and
  - (iii) testing the reasonableness of the existing internal control mechanism, which serves to rectify any inadequacy of internal control in a timely and effective manner.
- (5) Independent reviews of risks associated with and internal control on key operations and financial and compliance functions are performed by the Internal Audit Department and the external auditor. Significant issues, together with recommendations for improvement, are reported in detail to the Audit Committee or the Board.

## Annual Review

The Board is fully aware of its accountability to the Company in respect of the Group's internal control system and the responsibility for reviewing the effectiveness of the system. The Board recognizes that its internal control system needs to be responsive and remain relevant over time in a continuously evolving business environment. The Group's internal control system is therefore subject to continuous review and improvement to enable the Group to be responsive to any alteration of risks faced by the Group. A comprehensive review on the effectiveness of the Group'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 on a self-assessment approach with a complete set of reporting forms. Persons-in-charge of each system and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In addition, senior management members are requested to assess the effectiveness of the internal control system against the elements outlined by the COSO internal control system, including the control environment, risk assessment, information and communication and control. Through the review process, the process owner is able to certify whether the internal control system is working as intended or to identify failures 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 and analysis 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 Group's internal control system.

The results of the review conducted for the year ended 31 December 2007 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have been taken or designated to be taken. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the Shareholders. The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2007.

## Internal Audit

The Internal Audit Department has been established since the listing of the Company on the Hong Kong Stock Exchange in 2004. It 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 Department attends each and every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor.

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 various financial and operational activities of the Group with resources being focused on higher perceived risks. Special reviews may, based on the assessment of risks, be conducted in various concerned areas identified by the management and 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 contains a strict prohibition on the unauthorised 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 to 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 2007 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 year 2007.

## 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 so that each share is entitled to one vote. 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 2007, 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 3 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 53 of this annual report and posted on the Company's websites.

## SHAREHOLDERS' MEETINGS

The annual or extraordinary general meeting provides a principal channel of direct 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 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. A question and answer 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 11 May 2007 at the JW Marriott Hotel, Hong Kong. The Chairman, all executive Directors, independent non-executive Directors and the Company's external auditor 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 2006, matters including the declaration of final dividend, the re-election of Directors, the re-appointment of auditor and the authorization of 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 9 May 2008. 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 the Company's annual report 2007.



## RECOGNITION AND THE WAY FORWARD

The Company's commitment to corporate governance continued to gain market recognition. The Board was awarded the "Directors of the Year Award 2007 — Board Category" by The Hong Kong Institute of Directors. The Award is a recognition of the Board's concerted effort and contribution in steering the development of the Group.

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.

By order of the Board

**ZHANG Zhi Yong**

*Executive Director & Chief Executive Officer*

**TAN Wee Seng**

*Executive Director & Chief Financial Officer*

Hong Kong, 18 March 2008





# Investor Relations Report

## OVERVIEW — CONTINUALLY IMPROVING IR INITIATIVES

The Company has earned a high level of recognition for its dedicated efforts in cultivating solid relationships with investors. We cherish such good relationships and constantly strive to take this to greater heights. Sound, effective management of all channels of communications with investors remains core to our investor relations (“IR”) policies and strategies. Only through this can we guarantee timely and accurate release of key investor information, which is integral to our ongoing emphasis on maintaining a high level of transparency.

Starting from the top management down to our working-level colleagues in our IR Department, we endeavour to engage Shareholders and investors in an open and proactive manner.

Strategies and actions speak for themselves. During the year, our annual report 2006 shone at the 18th Annual International Galaxy Awards and 2007 International ARC Awards Competition, the two most respected competitions in the industry. In addition, the Company was rated number one in corporate governance by CLSA Asia Pacific Market in the prestigious brokerage’s research report titled “Diamonds are Forever — Asia’s long term consumer blue chip stars” issued in May 2007. All of these high-profile acknowledgments are testaments to our sound planning and execution in upholding the best IR principles and practices.

## PROGRAM REVIEW — FAIR COMMUNICATIONS GAIN INVESTOR SUPPORT

We manage our IR Department in a way that makes it not only an interactive conduit through which information is disseminated, but also a vehicle through which we actively engage our investors to gain their collective support in driving the Company’s business strategies.

In the process, we adhere strictly to fair disclosure guidelines to ensure that communication with Shareholders, investors and the media is conducted in a balanced manner and that no material, non-public information is made available to any individual. All information disclosed to an outside party undergoes rigorous internal review before any dissemination takes place.



Below is a summary of the IR activities of the Company conducted in 2007.

## Detailed and Precise Financial Reporting

Annual and interim reports remain the Group's top priority as these represent two of the most important documents and key channels through which we keep our investors informed of our latest developments. We deploy considerable resources to compile these reports so that they convey, with a high degree of accuracy and precision, the Company's vision, operating strategies, business and financial performance and outlook for the future.

## Multi-channel Shareholder Communication Strategy

A number of channels were deployed to interact with investors to keep them abreast of the Company's latest developments.

- Annual and interim results presentations to investors and analysts

These are the two most important occasions where the Chairman, the Chief Executive Officer and the Chief Financial Officer of the Group meet with investors and analysts to share with them the financial results, updates on business strategies and outlook.

- International roadshows and investment forums

Global investor roadshows and investment conferences represent another series of occasions where the Group's management has direct dialogue with investors to discuss the latest developments. Generally, the roadshows are held after results presentations so that investors may obtain timely, concise information from the management. Investment conferences held by investment banks and securities firms are also prime opportunities to introduce the Group to international investors.

- Ongoing communication with the investment community

Throughout the year, our management attended regular face-to-face meetings and upheld a regular, ongoing calendar of telephone/conference calls with institutional investors and research analysts. These meetings allowed the management to maintain close contact with investors and collect valuable external feedback on the Group's business strategies.



For example, a telephone conference was set up with buy- and sell-side analysts immediately after the Company announced the acquisition of a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. (上海紅雙喜股份有限公司) in November 2007. This arrangement enabled the Company to address the concerns that those analysts had, resulting in good communication.

- **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.

Reverse roadshows were also planned for strategic occasions to entice investors' and analysts' interest and to allow them to experience the Group's operations in person. In January 2008, the IR Department organized a reverse roadshow to LI-NING flagship stores in Wuhan and the Li Ning City in Beijing. The roadshow was well-attended by over 20 analysts from leading financial institutions in mainland China and Hong Kong. All the participants were able to gain a better understanding of retail operation of the latest generation of LI-NING stores in Wuhan as well as experience the state-of-the-art facilities in the Li Ning City.

These activities allow investors to know more about the Group's daily operations as they present snapshots of the Group's business in real time.

- **Investor opinion audit**

The Company values its relationships with investors. Since its listing on the Hong Kong Stock Exchange, the Company has conducted investor opinion audits for three times to gain in-depth knowledge of their views on the effectiveness of the Company's external communications with regard to the Group's operational and development strategies as well as the quality of its IR activities. These provide useful insights for helping the Company make improvements in its future performance.

- **Press conferences and briefings**

The Group utilized various channels to communicate its messages to the public, including news releases, press conferences and media interviews.

Media relations constitute a vital part of the Group's IR strategies. Not only was investment related information disseminated through the media, but community-related messages relevant to the Group were also disseminated through the media to promote the Group's activities regarding social responsibilities.

During the year under review, the management of the Company met the press regularly and was interviewed frequently by international, regional and local media.

- **Timely response to investors, analysts and the media**

Information was provided in a timely manner in response to all forms of enquiries from Shareholders, investors, analysts and the media via email, fax or telephone. These enquiries were handled by designated professionals to ensure consistency, fairness, alignment with the Company's policies and compliance with relevant regulatory requirements.

## Summary

During the year, the Company participated in a number of international roadshows and investment forums in Hong Kong, Singapore, Europe, Japan and the United States. It also joined one-on-one and group investor meetings and conference calls, and led delegations to visit its operations in the PRC.

Details of such activities are listed below:

Type of event	Number of participation in 2007
International roadshows	1 round, 8 times
Investment forums	10 forums
Face-to-face meetings with fund managers and analysts*	277 meetings
Conference calls	28 conference calls with local and overseas investors
Visits to the Company's stores in the PRC	23 visits
Media interviews	17 times, by 19 media outlets

\* Including the one-on-one and group meetings in the roadshows, forums and company visits

## Corporate Websites

To ensure all Shareholders have equal and timely access to important company information and discloseable updates, the Company has made extensive use of its corporate websites ([www.lining.com](http://www.lining.com), [www.irasia.com/listco/hk/lining](http://www.irasia.com/listco/hk/lining) and [www.li-ning.com](http://www.li-ning.com)) to disseminate up-to-date information.

The websites are updated regularly to enable the public and the investment community to access information on the Group's activities, corporate governance, management, operating and financial performance, latest business developments and share performance.



## ACCOLADES AND RECOGNITIONS

As at the end of 2007, there are 22 investment banks and institutions who have initiated research coverage on the Company. This is a solid endorsement of our commitment to our high standards of investor communications.

During the year, the Company's annual report 2006 titled "Branding China; Reaching Global" clinched "Silver" at the 18th Annual International Galaxy Awards and "Gold" in the "Interior Design: Sports Equipment & Goods" category as well as "Honours" in the "Overall Annual Report: Sports Equipment & Goods" category at the 2007 International ARC Awards Competition, which is known as the "Oscars" of annual reports.

The Company was rated number one in corporate governance among 116 mainland China listed companies and 73 companies in the same business sector by CLSA Asia Pacific Market in the prestigious brokerage's research report titled "Diamonds are Forever – Asia's long term consumer blue chip stars" issued in May 2007.

These internationally-acclaimed awards were bestowed upon the Company for its remarkable achievements in corporate governance, accounting and finance. The acknowledgements further attest to our excellent reputation and vast, ever-expanding capabilities in optimizing the knowledge and understanding of the investment community with respect to the Company's corporate mission and vision, development strategies, competitive position as well as operating and financial performance.

## OUTLOOK — FULL MANAGEMENT SUPPORT FOR PROACTIVE IR

Effective investor relations efforts require maintenance of a high level of corporate transparency, an exercise that calls for unrelenting commitment and support from the top management. Within the IR Department we received an additional moral boost from the full backing promised and delivered by the Board and the management. We shall continue to pursue proactive and productive IR strategies and implement best practices in investor relations wherever applicable.



## INFORMATION FOR INVESTORS

### Share Information

Listing: the Main Board of the Hong Kong Stock Exchange since 28 June 2004

Stock code: 2331

Board lot: 500 Shares

Number of issued Shares as at 31 December 2007: 1,037,566,302 Shares

Market capitalization as at 31 December 2007: HK\$30,141,301,073.10

### Dividends for 2007

Interim dividend: RMB5.76 cents per Share

Proposed final and special dividends: RMB7.96 cents and RMB9.13 cents per Share, respectively

### Financial Calendar

Announcement of interim results: 27 August 2007

Announcement of annual results: 18 March 2008

Closure of register of members for final and special dividends: 6 May 2008 – 9 May 2008

Record date for final and special dividends: 9 May 2008

Annual general meeting: 9 May 2008

Payment date of final and special dividends: on or about 19 May 2008

### Corporate Websites

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

<http://www.lining.com>

<http://www.irasia.com/listco/hk/lining>

<http://www.li-ning.com>

### 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](mailto:investor@lining.com)









# Championing innovation



# Directors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. LI Ning (李寧)**, aged 45, is the founder of the 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 unprecedentedly won six gold medals in men's artistic gymnastics events and was named the "Prince of Gymnastics" ("體操王子") in the PRC. In the 23rd 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 an 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 18 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), an executive 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 honorary doctorate from Loughborough University in the United Kingdom.

**Mr. ZHANG Zhi Yong (張志勇)**, aged 39, is the Chief Executive Officer and an executive Director. Mr. Zhang joined the Group in October 1992 as a finance manager of Beijing Li Ning Footwear Co., Ltd. (北京李寧鞋業有限公司), became the financial controller of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) in April 1999 and was the general manager of the company from February 2001 to June 2004. Since the listing of the Company in June 2004, Mr. Zhang has been the Company's Chief Executive Officer and executive Director, responsible for the overall strategy of the Group, and promoting the development of human resources, information resources and financial resources in line with the Group's brand strategies. Since 1992 when he began his career in the sports goods industry in China, Mr. Zhang has accumulated 16 years of China experience in the industry with thorough understanding of the change of the PRC consumer market, the building of brand images and change management for Chinese firms. Mr. Zhang holds a bachelor's degree from Beijing College of Economics (北京經濟學院) and an executive 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 52, 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 and investor relations affairs. He has over 30 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 fellow member of the Chartered Institute of Management Accountants in the United Kingdom.



## Non-executive Directors

**Mr. LIM Meng Ann (林明安)**, aged 44, 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 Partner and Head of Actis China Limited ("Actis"), a leading private equity firm focusing on emerging markets. Mr. Lim is responsible for Actis' private equity investment in China, which he joined in July 2007. Prior to joining Actis, Mr. Lim was the senior vice president of, and was 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 bachelor's degree of engineering (first class honors) from University College of London and an M.B.A. degree from University of Strathclyde. He is also a Chartered Financial Analyst.

**Mr. Stuart SCHONBERGER**, aged 49, 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 Investments Management (Hong Kong) 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 Investments Management (Hong Kong) 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. CHU Wah Hui (朱華熙)**, aged 56, is a non-executive Director and a member of the Nomination Committee. Mr. Chu joined the Group in June 2007. Mr. Chu is currently a director and an audit committee member of the board of Mettler-Toledo International Inc., a U.S. corporation listed on the New York Stock Exchange. Mr. Chu has been, since April 2007, the non-executive chairman of PepsiCo International's Asia Region. He was the president of PepsiCo International — China Beverages Business Unit from March 1998 to March 2007 and concurrently chairman of PepsiCo (China) Investment Company Limited for the period from November 1999 to March 2007. Prior to joining PepsiCo International in 1998, he held various management positions in several U.S. multinational companies, namely, Quaker Oats, HJ Heinz, Whirlpool and Monsanto. Mr. Chu is a Senior Advisor of Arthur D. Little China, a global management consultant firm. He obtained his Bachelor of Science degree from the University of Minnesota in the United States.

**Mr. James Chun-Hsien WEI (韋俊賢)**, aged 50, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei is currently the Senior Vice President of Avon Products, Inc., Asia Pacific ("Avon") and is responsible for Avon's operations in 10 markets, including Japan, Taiwan, Australia, Philippines and India. Before joining Avon in 2003, Mr. Wei spent 19 years at Procter & Gamble where he rose to become the Vice President and General Manager of Procter & Gamble Greater China, overseeing the company's health and beauty care business in that region. Mr. Wei also serves as an independent non-executive director of Tsann Kuen (China) Enterprise Co., Ltd. (廈門燦坤實業股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange. Mr. Wei holds a B.S.E degree from National Taiwan University and an M.B.A degree from the University of Chicago in the United States.

## Independent non-executive Directors

**Mr. KOO Fook Sun, Louis (顧福身)**, aged 51, 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), Midland IC&I Limited and Richfield Group 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 University of California, Berkeley in the United States and is a certified public accountant.



**Ms. WANG Ya Fei, Jane (王亞非)**, aged 52, 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 17 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 an M.B.A. degree from University of Lancaster in the United Kingdom.

**Mr. CHAN Chung Bun, Bunny (陳振彬)**, aged 50, is an independent non-executive Director. Mr. Chan joined the Group in June 2004. Mr. Chan has more than 26 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of Kwun Tong District Council of Hong Kong. Mr. Chan was appointed as Justice of Peace in 2002. 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 38, 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, including 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 eight years of experience in logistics and procurement management, and was once the Deputy General Manager of the operations system of LI-NING brand. Mr. Guo graduated from South China Normal University (華南師範大學) majoring in mathematics, and completed the "Leading for Success Consortium Program of Hong Kong University of Science and Technology" in 2007.

**Mr. HU Nan (胡南)**, aged 42, is the Deputy General Manager of the sales system 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 Company's sales channels as well as formulation and execution of customer development strategies. Mr. Hu has over ten 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 Human Sociology of Sports at Huazhong Normal University (華中師範大學) in November 2006.

**Mr. WU Xian Yong (伍賢勇)**, aged 36, is the Deputy General Manager of the footwear 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 footwear products, including footwear-product planning, research and development and design. Mr. Wu has over ten years of experience in marketing and brand management, and was once the Deputy General Manager of the marketing system and the Deputy General Manager of apparel products of LI-NING brand. 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. HSU Mao Chun, Morrison (徐懋醇)**, aged 43, is the Deputy General Manager of apparel products of LI-NING brand. Mr. Hsu joined the Group in November 2007. Mr. Hsu is primarily responsible for the product planning, research and development and design of apparel products and also the accessories products of LI-NING brand. Prior to joining the Group, Mr. Hsu worked in well-known international sports brand companies and has extensive experience in marketing and product management in Asia Pacific Area. Mr. Hsu graduated from University of California, Berkeley in the United States, with a bachelor's degree in business international marketing.

## Directors and Senior Management

(continued)

**Mr. FANG Shi Wei (方世偉)**, aged 44, is the Deputy General Manager of the marketing system of LI-NING brand. Mr. Fang joined the Group in November 2007. Mr. Fang is primarily responsible for the marketing and communications, public relations, sports marketing, event marketing and digital marketing of LI-NING brand, and is also the Group's Director of Strategic Marketing. Prior to joining the Group, Mr. Fang worked in various multinational companies and has extensive experience in marketing and product management. Mr. Fang obtained a master's degree in zoology from Taiwan University (台灣大學) in 1989 and a master's degree in journalism and telecommunications from Ohio University in the United States in 1994.

**Mr. WU Wei Guo (吳偉國)**, aged 48, is the Deputy General Manager of international marketing of LI-NING brand. Mr. Wu joined the Group in January 2005. Mr. Wu is primarily responsible for the operations of the international marketing department, as well as the formulation and partial implementation of the internationalization strategies of LI-NING brand. Mr. Wu was once the Deputy General Manager of footwear products, before he became the Deputy General Manager of the marketing system 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 holds a bachelor's degree in business administration from University of Wisconsin in the United States.

**Mr. DONG Jun (董俊)**, aged 40, is the Deputy General Manager of the operations system of LI-NING brand. Mr. Dong joined the Group in December 2002. Mr. Dong is primarily responsible for the procurement, 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 six years of enterprise resources planning counseling 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. Elson ZHANG (張麒麟)**, aged 43, is the General Manager of AIGLE (China) Outdoor Sports Products Co. Ltd. (艾高(中國)戶外體育用品有限公司). Mr. Zhang joined the Group in November 2007. He is responsible for the strategy formulation and operations management of AIGLE brand. Prior to joining the Group, Mr. Zhang held senior management positions in the PRC subsidiaries of various multinational companies and has over ten years of experience in marketing and product promotion management. Mr. Zhang graduated from National Chengchi University, Taiwan (台灣國立政治大學) with a master's degree in marketing.

## Functional Divisions

**Mr. ZHANG Hui (張輝)**, aged 37, 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 36, is the Director of Human Resources/Administration. 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 ten 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 business management from Renmin University of China (中國人民大學).

**Mr. ZHANG Jun (張峻)**, aged 39, 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 held a management position 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 an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院).



# Corporate Social Responsibilities

## CORPORATE CULTURE

The Group places great emphasis on the establishment of its corporate culture and advocates the enhancement of both staff unity and corporate competitiveness under its corporate philosophy of “Excellent Management with Athletic Spirit”. Adhering to the core values of athleticism, integrity, professionalism, passion, breakthroughs and trust, the Group endeavours to promote the growth and development of the corporation as well as its employees by creating an atmosphere of learning and innovation.

The conventional events to promote our corporate culture continued in 2007. Sports Day and 11 staff sports clubs exemplified the Group’s tradition to emphasize sports. The annual dinner at Chinese New Year gathered our employees from various regions in China, providing an opportunity for the performance of their talents and interaction among the employees. Christmas and the 1st June Family Day drew together employees and their families at the big and happy family of the Company, for a closer connection. During the year 2007, the six issues of our internal publication “Sports Ethics” (《運動品格》) and the timely update of relevant information on our intranet served to disseminate our corporate culture and information and opened a window for better understanding of the corporation. In addition, communication between the management and employees was achieved through regular events of “CEO Open Day” and “HR Open Day”, where the management and the employees can speak frankly and freely, reinforcing mutual understanding and creating a harmonious atmosphere within the corporation.

The Group’s care towards its employees is exemplified in a number of ways. In establishing our new operations headquarters in Tongzhou in Beijing during the year 2007, the issues of environmental protection and greenbelt construction were given full consideration as early as at the beginning of the design stage. Commuter buses are offered in a number of routes to ensure convenience for employees to travel to and from the operations headquarters. Facilities including cafes, restaurants, swimming pools, fitness rooms, gymnasiums are available at the headquarters. Such human elements have enhanced employees’ sense of belonging to the corporation and boosted their morale.

With an ample variety of themed activities for cultural dissemination and advanced equipments and facilities, the Group is well-equipped with both software and hardware necessary to step up the establishment of a corporate culture in line with the strategic development of the Group and to maintain sustainable and rapid development of the Group.



## 东方市中国运动员希望小学落成仪式



### HUMAN RESOURCES

The Group always values the importance to select, train, motivate and retain talented staff. We consider talented human resources as our invaluable asset and is vital to our corporate development. In 2007, the Group's human resources management was strengthened through recruitment, development and enhancement of staff members, and streamlining of the organizational structure, with a view to better support the sustainable and rapid expansion of the Group.

#### Employees and Remunerations

The Group has adopted the digital Key Performance Indicators 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 not only boosts the enthusiasm and creativity of the employees, but also facilitates the strategic consistency of the Group as a whole. In addition to salaries, the Group has also adopted different methods such as share options and restricted shares to incentivize our employees. The Group's close attention to salary level changes in the market from time to time, appropriate remuneration packages of the employee and competitiveness of our pay scale have enabled the Group to attract and motivate talented people.

In response to the intensified competition for talents in the market, increasing employees' concern for their career development, and more stringent requirements on our pool of personnel as driven by the Group's business development, the Group initiated a talent development scheme and established an internal procedure for talent review in 2007. We conducted two rounds of review and embarked on training and rotational arrangements, which activated the potentials of our staff with a view to achieving the common goals and visions of the Group and its employees. In future, the Group will continue to streamline its procedures to identify key personnel in all levels of the Group's hierarchy and is committed in promoting the internal development and training of our staff force.

#### Learning and Development

The Group has developed a comprehensive training system including a leadership training program for managers, an all-around workplace skills program for employees and a professional skills program for professional staff.

The leadership training program mainly focused on strategic thinking, influencing power and staff development abilities of management staff. The comprehensive professional skills program and the all-around workplace skills program covered business English/Japanese, computer skills, time management, personal knowledge management, public speaking skills, effective meeting



# Corporate Social Responsibilities



skills, sales ability, negotiation skills etc. During the year 2007, a total of 92 courses were provided to 1,000 employees, with an aggregate of 43,582 training hours and an average training time per person of approximately 43.58 hours. The training took the convenient and flexible forms of public courses and e-learning and succeeded in enhancing the overall quality and working skills of our employees in many different aspects. An award system is also in place to reward employees who participate actively in their learning.

In 2007, the Group embarked on a large-scale training scheme called “Looking forward to Beijing Olympic Games, Growing with Li Ning — Career Development and Mission Setting Training Camp” (迎奧運，我與李寧共同成長——職業發展和使命共創培訓營). 361 employees participated in a total of ten training camps. In line with our staff development initiative, the training camp played an indispensable role in identifying and developing quality staff in our existing team.

During the year 2007, the Group initiated a campaign called “Knowledge Sharing is Power” (知識分享、卓越的力量) to collate most-valued knowledge topics. This ongoing campaign of collating the Company’s most-valued knowledge topics applied the professional tools of knowledge file collection and refinement, forming a knowledge system of the Company, strengthening the cultural atmosphere which entailed “knowledge sharing, collective learning, and growing together” (分享知識、集體學習、共同成長), and providing a solid foundation for building a learning-based organization.

## CHARITY EVENTS

It has always been the Group’s commitment to contribute to society. Over the continuing process of business development, it recognizes its social responsibility and mission as a corporate citizen of the community and stresses the importance of community services.

In 2007, amongst its long-term participation in charity events such as “Lifeline Express” (健康快車) and “Li Ning Hope Primary School” (李寧希望小學), the Group continued to sponsor activities of “Lifeline Express”, with an aim to help to recover the eyesight of unfortunate children. A total of RMB388,000 was donated by our employees for the construction of two new Hope Primary Schools, giving more children the opportunity to attend formal education and change the future of their own, the society and the nation at large.

During the year 2007, the Group continued to increase its involvement in “Let’s Do Sports Together — Charity Training for Sports Teachers in Poor Areas Nationwide” (一起運動 — 全國貧困地區體育教師公益培訓). To date, the campaign has extended to cover to poor areas including Sichuan, Shanxi, Guangxi, Yunnan, Heilongjiang, and has trained a total of 900 people. To further the development of the project, the Group also initiated a Survey on Qualification of Sports Teachers in Poor Villages in China with Beijing Sports University (北京體育大學) to examine the qualifications of existing sports teachers in poor villages, backing the enhancement of teaching quality of physical education and the improvement of the poverty landscape in China. The charity show called “Let’s Do Sports and Have Fun Together Spring 2007” (春暖2007 一起運動、一起快樂) on the topics of the Olympic Games, education and support for the poverty, was broadcast on CCTV under the joint efforts of the Group and relevant organizations. It raised approximately RMB11,020,000 for constructing Chinese athletes Hope Primary Schools and implementing charity training projects of the campaign “Let’s Do Sports Together”.

In November 2007, the Group announced its strategy with respect to the Olympic Games, launching a “Hero Triumph” plan in collaboration with “Chinese Athletes Education Fund” (中國運動員教育基金) and “China Teenagers Development Fund” (中國青少年發展基金會). Under the campaign, in respect of each gold medal winner representing any one of the four PRC





national teams of shooting, table tennis, diving or gymnastics sponsored by the Group in the Beijing 2008 Olympic Games, a Hope Primary School named after the champion and funded by the Group and the aforesaid institutions will be built in his/her hometown. The Group will further extend the “Hero Triumph” plan in the hope that more athletes and corporations will participate in such initiatives.

In early 2008, the devastating snowstorm and rainstorm in southern China caught the utmost attention of our employees. Amidst the festive Chinese New Year, the Company promptly responded by donating warm clothes amounting to RMB1,050,000 to the catastrophic regions.

## RECOGNITION BY THE COMMUNITY

In 2007, Li Ning Company Limited was named on the “China Charity Ranking” (中國慈善排行榜) and was the only sports goods enterprise being awarded the “Top Ten Charitable Enterprises 2007” (2007十大慈善企業). This award represents the community’s recognition of the Group’s long-term care for charity.

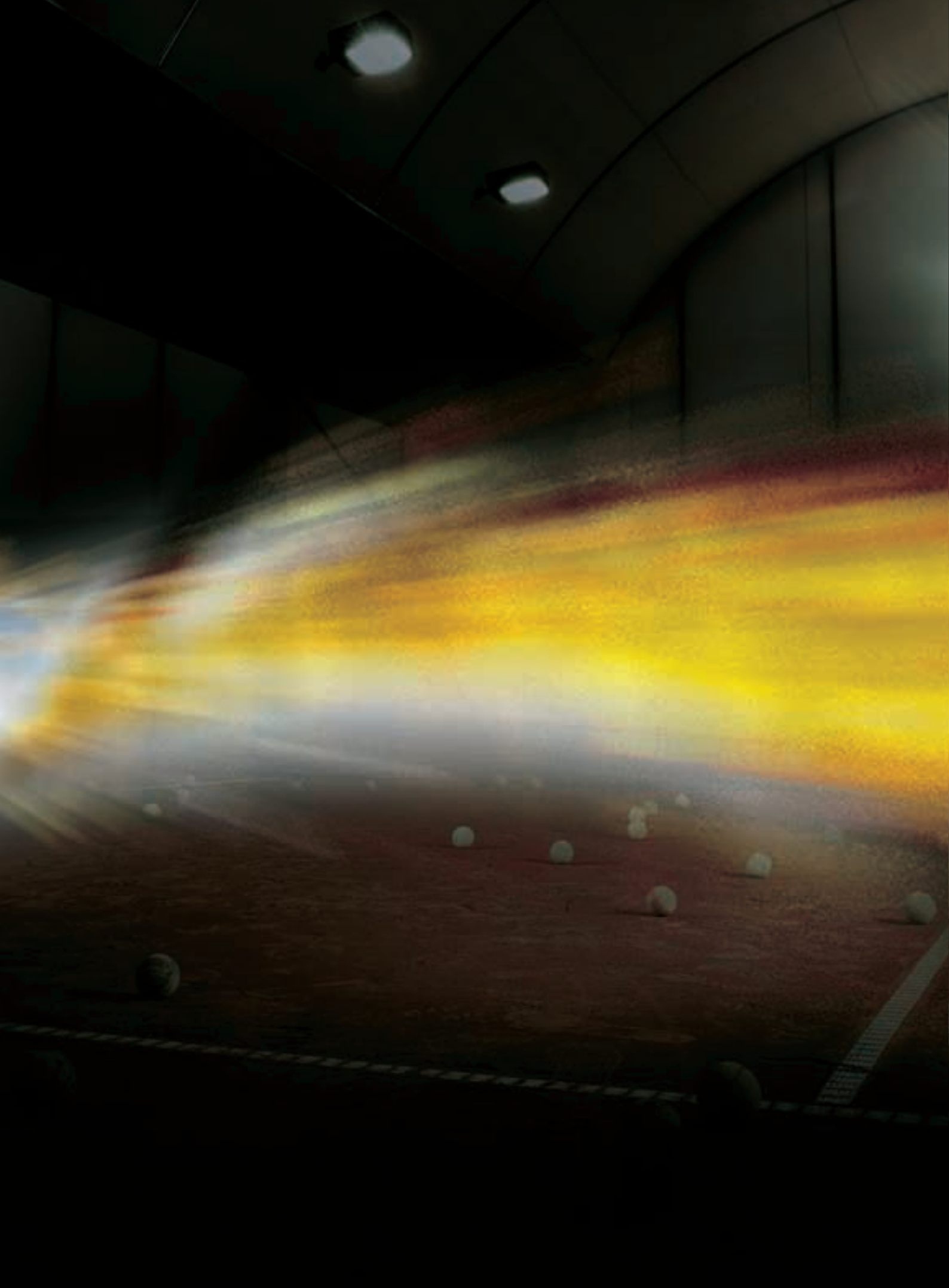
In April 2007, “The Most Respected Enterprise Award in China 2006” (2006年度中國最受尊敬企業評選) ceremony, which was jointly organized by the Management Cases Research Center of Peking University (北京大學管理案例研究中心) and Economic Observer (《經濟觀察報》), was held in Peking University (北京大學). With its all-rounded accomplishments in terms of innovation, social responsibilities, corporate image and management ability, the Company was awarded “The Most Respectable Enterprise in China” (中國最受尊敬企業) for the second time, and was the only sports goods enterprise obtaining such a recognition.

In early 2008, at the international forum of Corporate Social Responsibilities in China jointly organized by the China Newsweek (《中國新聞周刊》) and China Red Cross Foundation (中國紅十字基金會), the Company was awarded the “2007 The Most Responsible Enterprise” (2007最具責任感企業獎), and was the only enterprise in the industry obtaining such a recognition.

In early 2008, the Company was awarded the “2007 The Best Enterprise’s Public Image Award” (2007最佳企業公眾形象獎) organized by institutions including the Enterprise Research Institute affiliated with the Development Research Center of the State Council (國務院發展研究中心企業研究所). The Company received the award in two consecutive years, and was the only enterprise in the industry obtaining such a recognition.

It has always been a cornerstone of the Group’s corporate culture to undertake social responsibilities. In pursuit of brand professionalism and internationalization, the Group will also keep up with its commitment in contribution to the construction of a harmonious society by utilizing its edge in sporting resources.





A full-page photograph of a man standing in a tunnel. He is wearing a white polo shirt with a grey patterned chest, dark shorts, and athletic shoes. He has his arms crossed and is looking directly at the camera. A bright light source at the end of the tunnel creates a strong lens flare and illuminates the scene. The text 'The winning attitude' is overlaid on the bottom right of the image.

# The winning attitude





# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007.

## 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 brands. The Group also manufactures, markets, distributes and sells outdoor sports products which bear the AIGLE trademark 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 2007 are set out in notes 11 and 12, respectively, to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 84 of this annual report.

The Board has recommended the payment of a final dividend of RMB7.96 cents per Share and a special dividend of RMB9.13 cents per Share in respect of the year ended 31 December 2007. The final and the special dividends 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 9 May 2008, being the date of the annual general meeting on which the final and the special dividends are proposed to the Shareholders for approval. Together with the interim dividend of RMB5.76 cents per Share paid on 28 September 2007, the total dividend per Share for the year ended 31 December 2007 amounts to RMB22.85 cents.

Subject to approval of Shareholders at the forthcoming annual general meeting, the final and the special dividends will be paid on or about 19 May 2008 to Shareholders whose names appear on the register of members of the Company on 9 May 2008. The register of members of the Company will be closed from Tuesday, 6 May 2008 to Friday, 9 May 2008 (both days inclusive). In order to qualify for the final and the special dividends, all transfer forms 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, 5 May 2008.

## RESERVES

As at 31 December 2007, distributable reserves of the Company amounted to RMB259,118,000. Details of movements in reserves of the Group during the year are set out in note 17 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	
	2007	2006
	% of total revenue	% of total revenue
The largest customer	6.9	8.1
Five largest customers	21.7	22.0
	% of total purchases	% of total purchases
The largest supplier	14.0	15.0
Five largest suppliers	40.6	43.6

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge 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 BORROWINGS

Bank borrowings of the Group as at 31 December 2007 amounted to RMB100,000,000. Particulars of the borrowings are set out in note 21 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB300,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of 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

Details of movements in ordinary shares of the Company during the year are set out in note 16 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 4 and 5 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 the 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 *(re-elected on 11 May 2007)*

Mr. Zhang Zhi Yong *(re-elected on 11 May 2007)*

Mr. Tan Wee Seng

### Non-executive Directors

Mr. Lim Meng Ann *(re-elected on 11 May 2007)*

Mr. Stuart Schonberger

Mr. Chu Wah Hui *(appointed on 1 June 2007)*

Mr. James Chun-Hsien Wei *(appointed on 1 September 2007)*

### Independent non-executive Directors

Mr. Koo Fook Sun, Louis *(re-elected on 11 May 2007)*

Ms. Wang Ya Fei, Jane

Mr. Chan Chung Bun, Bunny

In accordance with article 86(3) of the Company's articles of association, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei who were appointed by the Board as non-executive Directors on 1 June 2007 and 1 September 2007, respectively, shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election.

In accordance with article 87 of the Company's articles of association and the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, Mr. Stuart Schonberger and Mr. Chan Chung Bun, Bunny shall retire from the office by rotation 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 of the Group are set out on pages 56 to 59 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 of 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 plan mandated by the Hong Kong Government (the "MPF Scheme") which is a defined contribution retirement benefit plan.

None of the Pension Schemes or the MPF Scheme has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are expensed as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2007 were RMB21,576,000.

## 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 reorganization 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. The Share Purchase Scheme was adopted by Alpha Talent on 5 June 2004 and shall be valid and effective for a period of ten years from that date. 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. 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.

Details of movements and valuation of the share options granted under the Share Purchase Scheme for the year ended 31 December 2007 are set out in note 29 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 recognizing the contribution of, and providing an reward 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 can 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.

Details of movements of the share options under the Pre-IPO Share Option Scheme for the year ended 31 December 2007 are as follows:

	Date of grant	Exercise price per Share HK\$	as at 01/01/2007	Number of share options exercised during the year	lapsed during the year	as at 31/12/2007	Exercise period (Note 4)
<b>Executive Directors</b>							
Zhang Zhi Yong	05/06/2004	1.8275	1,267,000	(74,000) (Note 1)	—	1,193,000	28/06/2005 – 05/06/2010
Tan Wee Seng	05/06/2004	1.8275	677,000	(448,000) (Note 2)	—	229,000	28/06/2005 – 05/06/2010
<b>Employees of the Group</b>							
In aggregate	05/06/2004	1.8275	5,301,000	(2,045,333) (Note 3)	(22,000)	3,233,667	28/06/2005 – 05/06/2010
			<u>7,245,000</u>	<u>(2,567,333)</u>	<u>(22,000)</u>	<u>4,655,667</u>	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$15.95.
2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$22.44.
3. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$22.80.
4. Options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of 28 June 2004, being the 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 2007.

## 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 ten years starting 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 and 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, industry knowledge 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 Directors 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 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 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 81,151,867 Shares, representing 7.81% 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 ten 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.



# Report of the Directors

(continued)

Details of movements of the share options under the Post-IPO Share Option Scheme for the year ended 31 December 2007 are as follows:

	Date of grant	Exercise price per Share HK\$	as at 01/01/2007	granted during the year	Numbers of share options exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2007	Exercise period (Note 12)
<b>Executive Directors</b>									
Zhang Zhi Yong	04/07/2005	3.685	782,000	—	(52,000) (Note 1)	—	—	730,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	312,000	—	(50,000) (Note 2)	—	—	262,000	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	—	—	—	—	172,000	04/09/2007 – 04/09/2012
<b>Non-executive Directors</b>									
Lim Meng Ann	04/07/2005	3.685	246,000	—	(164,000) (Note 3)	—	(82,000)	—	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	—	—	—	(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	—	—	—	—	90,000	04/09/2007 – 04/09/2012
<b>Independent non-executive Directors</b>									
Koo Fook Sun, Louis	04/07/2005	3.685	246,000	—	(164,000) (Note 4)	—	—	82,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	—	(30,000) (Note 5)	—	—	60,000	04/09/2007 – 04/09/2012
Wang Ya Fei, Jane	04/07/2005	3.685	246,000	—	(82,000) (Note 6)	—	—	164,000	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	—	—	—	—	90,000	04/09/2007 – 04/09/2012
<b>Employees of the Group</b>									
In aggregate	04/07/2005	3.685	9,154,999	—	(1,930,299) (Note 7)	(212,667)	—	7,012,033	04/07/2006 – 04/07/2011
In aggregate	03/01/2006	5.50	360,000	—	(85,000) (Note 8)	—	—	275,000	03/01/2007 – 03/01/2012
In aggregate	04/09/2006	8.83	1,962,000	—	(214,669) (Note 9)	(113,333)	—	1,633,998	04/09/2007 – 04/09/2012
In aggregate	11/10/2006	8.95	90,000	—	(30,000) (Note 10)	(60,000)	—	—	(Note 13)
<b>Other participants</b>									
In aggregate	20/11/2006	9.84	300,000	—	—	—	—	300,000	(Note 14)
	19/07/2007	19.68	—	350,000 (Note 11)	—	—	—	350,000	19/07/2008 – 19/07/2013
				15,294,999	350,000	(2,801,968)	(386,000)	(172,000)	12,285,031

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$18.60.
2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$25.86.
3. The closing price per Share immediately before the date of exercise of the options is HK\$19.50.
4. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$20.04.
5. The closing price per Share immediately before the date of exercise of the options is HK\$24.65.
6. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$14.07.
7. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$21.49.
8. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$23.48.
9. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$26.43.
10. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$24.04.
11. The closing price per Share immediately before the date of grant is HK\$19.22.
12. Unless otherwise stated in notes 13 and 14, 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.
13. The options are subject to vesting schedules and exercise periods as follows:

<i>% of the options granted</i>	<i>Vesting date</i>	<i>Exercise period</i>
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

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

<i>% of the options granted</i>	<i>Vesting date</i>	<i>Exercise period</i>
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

Details of valuation of the share options granted during the year ended 31 December 2007 under the Post-IPO Share Option Scheme is set out in note 29 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 ten 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 ("Restricted Shares") granted to the selected participants are subject to restrictions and limitations and 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.



## Report of the Directors

(continued)

During the year ended 31 December 2007, 2,305,400 Restricted Shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. The total payout, including related expenses, amounted to RMB39,878,000. 243,360 Restricted Shares were vested and 84,802 Restricted Shares lapsed during the year. As at 31 December 2007, the number of Restricted Shares granted under the scheme, except for those lapsed, amounted to 2,977,798 Shares, representing 0.29% of the issued shares of the Company as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2007 are as follows:

Date of grant	Fair value per Restricted Share (Note) HK\$	Number of Restricted Shares					Vesting period
		as at 01/01/2007	granted during the year	lapsed during the year	vested during the year	as at 31/12/2007	
22/09/2006	9.01	703,200	—	(32,102)	(225,361)	445,737	22/09/2007 – 22/09/2009
04/12/2006	10.26	54,000	—	—	(17,999)	36,001	04/12/2007 – 04/12/2009
12/01/2007	11.90	—	5,500	—	—	5,500	12/01/2008 – 12/01/2010
08/05/2007	15.32	—	10,000	—	—	10,000	08/05/2008 – 08/05/2010
02/07/2007	18.96	—	1,189,200	(52,700)	—	1,136,500	02/07/2008 – 02/07/2010
16/07/2007	19.90	—	18,000	—	—	18,000	16/07/2008 – 16/07/2010
29/08/2007	20.85	—	66,000	—	—	66,000	29/08/2008 – 29/08/2010
28/09/2007	26.85	—	1,000	—	—	1,000	28/09/2008 – 28/09/2010
11/10/2007	26.25	—	15,700	—	—	15,700	11/10/2008 – 11/10/2010
07/12/2007	26.75	—	1,000,000	—	—	1,000,000	07/12/2008 – 07/12/2010
		<u>757,200</u>	<u>2,305,400</u>	<u>(84,802)</u>	<u>(243,360)</u>	<u>2,734,438</u>	

Note:

The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.

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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and chief executives 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 Issuers (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	364,926,250 (Long position)	1	Interests of controlled corporations	35.171
	9,744,400 (Short position)	1(c)	Interests of controlled corporation	0.939
Zhang Zhi Yong	6,533,200 (Long position)	2	Personal	0.630
Tan Wee Seng	1,770,300 (Long position)	3	Personal	0.171
Lim Meng Ann	84,000 (Long position)	4	Personal	0.008
Stuart Schonberger	354,000 (Long position)	5	Personal	0.034
Chu Wah Hui	30,000 (Long positions)		Family	0.003
Koo Fook Sun, Louis	272,000 (Long position)	6	Personal	0.026
Wang Ya Fei, Jane	272,000 (Long position)	7	Personal	0.026
Chan Chung Bun, Bunny	108,000 (Long position)	8	Personal	0.010

\* The percentage has been calculated based on 1,037,566,302 Shares in issue as at 31 December 2007.

Notes:

- Mr. Li Ning is deemed to be interested in an aggregate of 364,926,250 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management Limited ("Dragon City") and Alpha Talent, respectively, as follows:
  - 203,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader Holdings Limited ("Ace Leader") and 38% is owned by Jumbo Top Group Limited ("Jumbo Top"). All shares of Ace Leader are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Jun Tai Trust, the beneficiaries of which include the respective family members of Mr. Li Ning. Mr. Li Ning is the settlor of the Jun Tai Trust and therefore is deemed to be interested in the 203,374,000 Shares held by Victory Mind. Mr. Li Ning is also a director of each of Victory Mind and Ace Leader and a beneficiary of the Jun Tai Trust;
  - 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 beneficiaries of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and therefore is deemed to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Ning is a director of Dragon City; and

## Report of the Directors

(continued)

- (c) 11,552,250 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 deemed to be interested in the 11,552,250 Shares held by Alpha Talent. Mr. Li Ning is a director of Alpha Talent.

Mr. Li Ning is deemed to have a short position in 9,744,400 Shares, among the total of 11,552,250 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 2007, Alpha Talent had granted options to purchase 35,117,900 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,675,750 Shares have been cancelled or lapsed due to resignation of employees and options to purchase 23,697,750 Shares have been exercised. The total number of outstanding options as at 31 December 2007 is 9,744,400 Shares.

2. The Director is interested in 110,000 Shares and is taken to be interested as a grantee of options to (i) purchase 4,175,000 Shares at an exercise price of HK\$0.43 per Share under the Share Purchase Scheme; (ii) subscribe for 1,193,000 Shares at an exercise price of HK\$1.8275 per Share under the Pre-IPO Share Option Scheme; and (iii) subscribe for 730,000 Shares at an exercise price of HK\$3.685 per Share and 262,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme. The Director is also taken to be interested as a grantee of 63,200 Restricted Shares granted under the Restricted Share Award Scheme.
3. The Director is interested in 393,000 Shares and is taken to be interested as a grantee of options to (i) purchase 200,000 Shares at an exercise price of HK\$0.86 per Share under the Share Purchase Scheme; (ii) subscribe for 229,000 Shares at an exercise price of HK\$1.8275 per Share under the Pre-IPO Share Option Scheme; and (iii) 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. The Director is also taken to be interested as a grantee of 48,300 Restricted Shares granted under the Restricted Share Award Scheme.
4. The Director is taken to be interested as a grantee of 84,000 Restricted Shares granted under the Restricted Share Award Scheme.
5. The 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. The Director is also taken to be interested as a grantee of 18,000 Restricted Shares granted under the Restricted Share Award Scheme.
6. The Director is interested in 112,000 Shares and is taken to be interested as a grantee of options to subscribe for 82,000 Shares at an exercise price of HK\$3.685 per Share and 60,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme. The Director is also taken to be interested as a grantee of 18,000 Restricted Shares granted under the Restricted Share Award Scheme.
7. The Director is taken to be interested as a grantee of options to subscribe for 164,000 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. The Director is also taken to be interested as a grantee of 18,000 Restricted Shares granted under the Restricted Share Award Scheme.
8. 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. The Director is also taken to be interested as a grantee of 18,000 Restricted Shares granted under the Restricted Share Award Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2007, none of the Directors or chief executives of the Company 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 2007, 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	364,926,250 (Long position)	1	Interest of controlled corporations	35.171
	9,744,400 (Short position)	2	Interest of controlled corporation	0.939
Li Chun	353,374,000 (Long position)	3	Interest of controlled corporations	34.058
Victory Mind Assets Limited	203,374,000 (Long position)	4	Beneficial owner	19.601
Ace Leader Holdings Limited	203,374,000 (Long position)	5	Interest of controlled corporation	19.601
Jumbo Top Group Limited	203,374,000 (Long position)	6	Interest of controlled corporation	19.601
Equity Trust Company (Cayman) Ltd.	203,374,000 (Long position)	7	Trustee	19.601
Dragon City Management Limited	150,000,000 (Long position)	8	Trustee	14.457
Cititrust (Cayman) Limited	150,000,000 (Long position)	9	Trustee	14.457
Tetrad Ventures Pte. Ltd.	103,055,500 (Long position)	10	Beneficial owner	9.932
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	103,055,500 (Long position)	10	Interest of controlled corporation	9.932
GIC Special Investments Pte. Ltd.	103,055,500 (Long position)	10	Interest of controlled corporation	9.932
Government of Singapore Investment Corporation Pte. Ltd.	103,055,500 (Long position)	10	Interest of controlled corporation	9.932
Minister of Finance (Incorporated)	103,055,500 (Long position)	10	Interest of controlled corporation	9.932
Fidelity International Limited	62,449,500 (Long position)		Investment manager	6.019
JPMorgan Chase & Co.	56,908,500 (Long position)	11	Beneficial owner, investment manager, custodian corporation/ approved lending agent	5.485
	38,000 (Short position)		Beneficial owner	0.004
	11,295,000 (Lending pool)		Custodian corporation/ approved lending agent	1.089

\* The percentage has been calculated based on 1,037,566,302 Shares in issue as at 31 December 2007.



## Report of the Directors

(continued)

### Notes:

1. See note 1 under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”.
2. See note 1(c) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”.
3. 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 57% is owned by Ace Leader and 38% is owned by Jumbo Top. All shares of Jumbo Top are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Yuan Chang Trust, the beneficiaries of which include the respective family members of Mr. Li Chun. Mr. Li Chun is the settlor of the Yuan Chang Trust and therefore is taken to be interested in the 203,374,000 Shares held by Victory Mind. Mr. Li Chun is also a director of each of Victory Mind and Jumbo Top and a beneficiary of the Yuan Chang Trust; 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 beneficiaries of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the settlor of the Gingko Trust and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City.
4. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above.
5. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”. Ace Leader is deemed to be interested in the 203,374,000 Shares held by Victory Mind.
6. See note 3(a) above. Jumbo Top is deemed to be interested in the 203,374,000 Shares held by Victory Mind.
7. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above. Equity Trust Company (Cayman) Ltd. is the trustee of the Jun Tai Trust and the Yuan Chang Trust and therefore is deemed to be interested in the 203,374,000 Shares held by Victory Mind.
8. See note 1(b) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(b) above.
9. See note 1(b) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(b) above. Cititrust (Cayman) Limited is the trustee of the Palm Trust and the Gingko Trust and therefore is deemed to be interested in the 150,000,000 Shares held by Dragon City.
10. 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 Investment 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).
11. Amongst the total of 56,908,500 Shares held by JPMorgan Chase & Co., 932,500 Shares were held as beneficial owner, 44,681,000 Shares were held as investment manager and 11,295,000 Shares were held as custodian corporation/approved lending agent.

Save as disclosed above, as at 31 December 2007, 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.



## CONNECTED TRANSACTIONS

During the year ended 31 December 2007, the Group had entered into transactions with a related party as set out in note 33 to the consolidated financial statements. These transactions also constituted continuing connected transactions which are exempt from the disclosure requirements pursuant to Chapter 14A of the Listing Rules.

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

The Company had not redeemed any of its Shares during the year ended 31 December 2007. Except for the Restricted Share Award Scheme Trust, neither the Company nor any of its subsidiaries had purchased or sold any Shares during the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2007 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 2007, the Company has complied with all the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 34 to 47 of this annual report.

## AUDITOR

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

By order of the Board  
**LI Ning**  
*Chairman*

Hong Kong, 18 March 2008



# Independent Auditor's Report

To the shareholders of Li Ning Company Limited  
(Incorporated in the 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 81 to 129, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 of the Company 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 directors, 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 financial position of the Company and of the Group as at 31 December 2007, and of the Group's financial performance 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, 18 March 2008

# Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	340,036	156,887
Land use rights	7	25,008	25,583
Intangible assets	8	87,834	81,551
Prepayments for acquisition of subsidiaries	9	66,588	—
Deferred income tax assets	22	29,601	12,455
Other non-current assets	14	57,985	—
		<b>607,052</b>	<b>276,476</b>
<b>Current assets</b>			
Inventories	10	513,947	350,544
Trade receivables	13	684,727	579,143
Other receivables and prepayments	14	114,071	109,951
Fixed deposits held at banks	15	11,167	10,304
Cash and cash equivalents	15	849,887	838,867
		<b>2,173,799</b>	<b>1,888,809</b>
<b>Total assets</b>		<b>2,780,851</b>	<b>2,165,285</b>





# Consolidated Balance Sheet *(continued)*

*(All amounts in RMB thousands unless otherwise stated)*

	Note	As at 31 December 2007	2006
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	16	110,023	109,503
Share premium	16	352,830	462,911
Shares held for Restricted Share Award Scheme	16	(44,089)	(6,367)
Other reserves	17	211,889	182,484
Retained profits	17		
Proposed final and special dividends	28	176,915	78,860
Others		937,033	572,099
		<b>1,744,601</b>	<b>1,399,490</b>
Minority interests		—	17,589
<b>Total equity</b>		<b>1,744,601</b>	<b>1,417,079</b>
<b>LIABILITIES</b>			
Non-current liabilities			
License fees payable	20	57,604	59,754
Deferred income tax liabilities	22	1,217	—
		<b>58,821</b>	<b>59,754</b>
Current liabilities			
Trade payables	18	490,417	424,460
Other payables and accruals	19	340,577	207,281
License fees payable — current portion	20	13,234	10,986
Current income tax liabilities		33,201	45,725
Borrowings	21	100,000	—
		<b>977,429</b>	<b>688,452</b>
<b>Total liabilities</b>		<b>1,036,250</b>	<b>748,206</b>
<b>Total equity and liabilities</b>		<b>2,780,851</b>	<b>2,165,285</b>
<b>Net current assets</b>		<b>1,196,370</b>	<b>1,200,357</b>
<b>Total assets less current liabilities</b>		<b>1,803,422</b>	<b>1,476,833</b>

ZHANG Zhi Yong

*Executive Director & Chief Executive Officer*

TAN Wee Seng

*Executive Director & Chief Financial Officer*

The notes on pages 87 to 129 are an integral part of these consolidated financial statements.

# Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
<b>ASSETS</b>			
Non-current assets			
Investment in subsidiaries	11	343,440	391,884
Current assets			
Other receivables and prepayments	14	1,197	148
Fixed deposits held at banks	15	10,167	10,304
Cash and cash equivalents	15	17,473	107,242
		28,837	117,694
<b>Total assets</b>		<b>372,277</b>	<b>509,578</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	16	110,023	109,503
Share premium	16	352,830	462,911
Other reserves	17	44,479	25,691
Accumulated losses	17	(138,191)	(91,840)
<b>Total equity</b>		<b>369,141</b>	<b>506,265</b>
<b>LIABILITIES</b>			
Current liabilities			
Other payables and accruals	19	3,136	3,313
<b>Total equity and liabilities</b>		<b>372,277</b>	<b>509,578</b>

ZHANG Zhi Yong

Executive Director & Chief Executive Officer

TAN Wee Seng

Executive Director & Chief Financial Officer

The notes on pages 87 to 129 are an integral part of this financial statement.

# Consolidated Income Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December	
		2007	2006
Revenue	5	4,348,747	3,180,543
Cost of sales	23	(2,265,901)	(1,671,991)
Gross profit		2,082,846	1,508,552
Distribution costs	23	(1,221,619)	(900,865)
Administrative expenses	23	(282,357)	(234,730)
Other income	24	30,985	29,561
Operating profit		609,855	402,518
Finance income		13,901	14,448
Finance costs		(5,224)	(15,813)
Finance income/(costs) — net	26	8,677	(1,365)
Profit before income tax		618,532	401,153
Income tax expense	27	(144,535)	(106,090)
Profit for the year		473,997	295,063
Attributable to:			
Equity holders of the Company		473,606	294,846
Minority interests		391	217
		473,997	295,063
Earnings per share for equity holders of the Company (RMB Cents)			
— basic	30	45.83	28.65
— diluted	30	45.09	28.25
Interim dividend and proposed final and special dividends	28	236,403	117,723

The notes on pages 87 to 129 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 2006		1,160,924	17,372	1,178,296
Profit for the year		294,846	217	295,063
Dividends paid	16	(88,330)	—	(88,330)
Share schemes				
— value of services provided	17	22,648	—	22,648
— proceeds from shares issued	16	15,769	—	15,769
Shares purchased for Restricted Share Award Scheme	16	(6,367)	—	(6,367)
Balance as at 31 December 2006		1,399,490	17,589	1,417,079
Balance as at 1 January 2007		1,399,490	17,589	1,417,079
Profit for the year		473,606	391	473,997
Dividends paid	16	(138,410)	—	(138,410)
Share schemes				
— value of services provided	17	33,526	—	33,526
— proceeds from shares issued	16	16,267	—	16,267
Shares purchased for Restricted Share Award Scheme	16	(39,878)	—	(39,878)
Acquisition of additional interests in a subsidiary		—	(17,980)	(17,980)
Balance as at 31 December 2007		1,744,601	—	1,744,601

The notes on pages 87 to 129 are an integral part of these consolidated financial statements.



# Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
Cash flows from operating activities			
Cash generated from operations	31	565,912	395,367
Income tax paid		(172,988)	(101,977)
Net cash generated from operating activities		392,924	293,390
Cash flows from investing activities			
Purchase of property, plant and equipment		(223,112)	(97,881)
Proceeds from disposals of property, plant and equipment		5,423	2,278
Purchase of intangible assets		(19,946)	(9,582)
(Increase)/decrease in fixed deposits at banks		(863)	334,059
Interest received		11,147	17,723
Net cash outflow from disposal of a subsidiary		—	(109)
Acquisition of additional interests in a subsidiary		(17,817)	—
Prepayments for acquisition of subsidiaries		(66,588)	—
Net cash (used in)/generated from investing activities		(311,756)	246,488
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		16,267	15,769
Purchase of shares for Restricted Share Award Scheme		(39,878)	(6,367)
Proceeds from bank borrowings		100,000	—
Dividends paid		(138,410)	(88,270)
Interest paid		(5,224)	—
Net cash used in financing activities		(67,245)	(78,868)
Net increase in cash and cash equivalents		13,923	461,010
Cash and cash equivalents at beginning of year		838,867	378,368
Exchange losses on cash and cash equivalents		(2,903)	(511)
Cash and cash equivalents at end of year		849,887	838,867

The notes on pages 87 to 129 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

(All amounts in RMB 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, 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 18 March 2008.

## 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 judgement 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 2007

IFRS 7, “Financial instruments: Disclosures”, and the complementary amendment to IAS 1, “Presentation of financial statements — Capital disclosures”, introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group’s financial instruments, or disclosures relating to taxation and trade and other payables;

IFRIC-Int 8, “Scope of IFRS 2”, requires the Group to consider transactions involving issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, in order to establish whether or not those transactions fall within the scope of IFRS 2. This interpretation does not have any impact on the Group’s financial statements in the current year; and

IFRIC-Int 10, “Interim financial reporting and impairment”, prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at subsequent balance sheet dates. This interpretation does not have any impact on the Group’s financial statements in the current year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### (b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operation:

- IFRIC-Int 7, "Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies"; and
- IFRIC-Int 9, "Re-assessment of embedded derivatives".

#### (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but the Group has not early adopted them:

- IAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). IAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. The Group will apply IAS 1 (Revised) from 1 January 2009;
- IAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amendment) from 1 January 2009 but it is currently not applicable to the Group as there are no qualifying assets;
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010;
- IAS 32 and IAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply IAS 32 and IAS 1 Amendments from 1 January 2009, but it is not expected to have any impact on the Group's financial statements;

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 3 (Revised) “Business Combination” (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are “capable of being conducted” rather than “are conducted and managed”. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. The Group will apply IFRS 3 (Revised) from 1 January 2010;
- IFRS 8, “Operating segments” (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standards SFAS 131, “Disclosures about segments of an enterprise and related information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reports provided to the management;
- IFRIC-Int 11, “IFRS 2 — Group and treasury share transactions” (effective from 1 March 2007). IFRIC-Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. Management is in the process of assessing the impact of this interpretation on the Group’s financial statements;
- IFRIC-Int 13, “Customer loyalty programmes” (effective from 1 July 2008). IFRIC-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement by using fair values. Management is currently assessing the impact of this interpretation on the Group’s financial statements; and
- IFRIC-Int 14, “IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction” (effective from 1 January 2008). IFRIC-Int 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the Group’s financial statements.

#### (d) Interpretation to existing standards that are not yet effective and not relevant for the Group’s operation

The following interpretation to existing standard has been published and is mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods but is not relevant to the Group’s operation:

- IFRIC-Int 12, “Service concession arrangements” (effective from 1 January 2008).



## 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2.7).

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 with 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services with 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.

#### (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 the 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 equipments	3–12 years

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment (continued)

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.

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) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (b) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses. They are initially measured at the fair value of the consideration given to acquire the license at the time of the acquisition, which represents historical cost comprising the capitalised present values of the fixed minimum periodic payments to be made on date of acquisition and in the subsequent years in respect of the acquisition of the license rights.

License rights are amortised using the straight-line method to allocate the cost of the licenses over the period of the respective contractual rights.

#### (c) 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).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Intangible assets (continued)

#### (d) 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 other 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). Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

### 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 determines the classification of its financial assets at initial recognition.

As at 31 December 2006 and 2007, the Group's financial assets primarily 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 those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables and cash and cash equivalents in the balance sheets.

#### (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, which are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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, 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 Trade receivables and other receivables

Trade receivables 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 trade receivables 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.

### 2.12 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 Ordinary shares

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 payments made.

Interest incurred on license fees payable are charged to the income statement as interest expense. Changes in estimate of the expected cash flows are recognised as distribution costs in the income statement. The revised expected cash flows are discounted using the original effective rate to arrive at the carrying amount of the liability.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and established practices where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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 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.

### 2.18 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. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

In Hong Kong, the Group make contributions to the scheme under the Mandatory Provident Fund Schemes ("MPF") Ordinance, the assets of which are generally held in separate trustee-administrated funds. The pension plans are generally funded by payments from employees and by the Group.

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

#### (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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.18 Director and employee benefits *(continued)*

#### (c) Other benefits

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

### 2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

### 2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and specifics of each arrangement.

#### (a) Sales of goods

For wholesale business, sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price of all the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. For retail business, sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. Accumulated experience is used to estimate and provide for amount of sales returns at each financial reporting date.

#### (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, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loan is recognised using the original effective interest rate.

#### (c) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Operating leases (as the lessee for operating leases)

Leases in which 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.

### 2.22 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.

### 2.23 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the restricted 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.

### 2.24 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## 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. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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 mainly in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong Dollars (HK\$) or United States Dollars (US\$) (Note 15). In addition, the Company is required to pay dividends and certain license fees and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2007.



## 3. FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

## (a) Foreign exchange risk (continued)

As at 31 December 2007 and 2006, if RMB strengthen/weakened by 5% against both USD and HKD with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of USD and HKD denominated cash and cash equivalents and license fees and other payables.

	2007 RMB'000	2006 RMB'000
Post-tax profit increase/(decrease)		
— Strengthen 5%	(1,580)	(4,809)
— Weakened 5%	1,580	4,809

## (b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. The Group currently does not hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings are for the short term and bear interest at fixed rate of 7.29% per annum as disclosed in note 21.

## (c) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For wholesale customers, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The table below shows the balances with the three major counterparties as at the balance sheet date.

	2007 RMB'000	2006 RMB'000
Banks*		
Bank A	279,720	188,284
Bank B	248,702	219,494
Bank C	125,368	130,799
	653,790	538,577

\* All these banks are prominent nation wide state-owned banks in the PRC with good credit ratings.

Trade receivables were due within 90 days from the date of billing. Debtors with balances that were 30 days past due are requested to settle all outstanding balances before any further credit is granted. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### (d) Liquidity risk

Prudent liquidity risk management includes 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.

Management monitors rolling forecast of the Group's bank facilities and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2007	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	After 5 years RMB'000
Borrowings	100,000	—	—	—
License fees payable	14,609	18,627	49,671	—
Trade payables	490,417	—	—	—
Other payables and accruals	340,557	—	—	—
	945,583	18,627	49,671	—

2006	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	After 5 years RMB'000
License fees payable	11,323	13,665	55,051	5,466
Trade payables	424,460	—	—	—
Other payables and accruals	207,281	—	—	—
	643,064	13,665	55,051	5,466

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### 3.2 Capital risk management (continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the consolidated balance sheet.

	2007 RMB'000	2006 RMB'000
Total borrowings	100,000	—
Equity holder's equity	1,744,601	1,399,490
Gearing ratio	5.7%	—

The increase in the gearing ratio during the relevant periods resulted primarily from the increase of short-term bank borrowings during 2007.

#### 3.3 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, trade receivables 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.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

#### Critical accounting estimates and assumptions *(continued)*

##### (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.

As discussed in Note 22 to the consolidated financial statements, the State Council of the PRC (the "State Council") has yet to issue further detailed measures and regulations of the new Corporate Income Tax Law (the "new CIT Law"). It is therefore difficult for the Group to estimate accurately what tax rates/incentives will be available in 2008 and years after. On the application of the new CIT Law regarding grandfathering reduced tax rates and tax holidays, the Group has used its best estimate to determine that the tax rates applicable to most of the Group's companies in the PRC will be 25% starting from 1 January 2008.

Should the provisions issued by the State Council differ from management's best estimate, or in the event that further guidance is provided that would give rise to additional incentives/use of different tax rates, the impact will be adjusted as and when that guidance is announced prospectively. Management considered that any such change in the tax rates should not have any material impact on the Group's financial statements.

### 5. REVENUE AND SEGMENT INFORMATION

Revenue 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 brands; 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 2007 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 RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Motor vehicles and office equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000
As at 1 January 2006							
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
Year ended 31 December 2007							
Opening net book amount	37,497	13,211	16,933	12,857	40,353	36,036	156,887
Additions	9	16,065	35,224	3,467	16,654	169,209	240,628
Transfer out from construction-in-progress	152,369	4,709	—	587	2,680	(160,345)	—
Disposals	(2,081)	(1,097)	(39)	(966)	(1,255)	—	(5,438)
Reclassification	(871)	871	369	—	(369)	—	—
Depreciation charge	(2,923)	(11,769)	(20,227)	(1,806)	(15,316)	—	(52,041)
Closing net book amount	184,000	21,990	32,260	14,139	42,747	44,900	340,036
As at 31 December 2007							
Cost	216,383	54,213	55,567	23,013	86,045	44,900	480,121
Accumulated depreciation	(32,383)	(32,223)	(23,307)	(8,874)	(43,298)	—	(140,085)
Net book amount	184,000	21,990	32,260	14,139	42,747	44,900	340,036

All of the Group's buildings are located in the PRC and certain of them are built on land in which the Group is in the process of applying for the formal legal title (see Note 7).

Depreciation expenses of RMB19,149,000 (2006: RMB10,498,000) has been charged to administrative expenses, RMB17,730,000 (2006: RMB11,720,000) to distribution costs, and RMB15,162,000 (2006: RMB5,089,000) to cost of sales.

## 7. LAND USE RIGHTS

	RMB'000
As at 1 January 2006	
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
Year ended 31 December 2007	
Opening net book amount	25,583
Amortisation charge	(575)
Closing net book amount	25,008
As at 31 December 2007	
Cost	27,322
Accumulated amortisation	(2,314)
Net book amount	25,008

Land use rights comprise prepaid lease payments for land located in the PRC for period varying from 20 to 50 years.

The Group is in the process of applying for formal legal title to its land use rights with net book value of RMB21,413,000 as at 31 December 2007 (2006: RMB21,855,000).

Amortisation charge of RMB575,000 (2006: RMB276,000) is included in administrative expenses.

## 8. INTANGIBLE ASSETS

	Trademark RMB'000	Computer Software RMB'000	License rights RMB'000	Total RMB'000
As at 1 January 2006				
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
Year ended 31 December 2007				
Opening net book amount	2,069	11,886	67,596	81,551
Additions	2,683	8,737	14,281	25,701
Disposals	—	(125)	—	(125)
Amortisation charge	(321)	(4,425)	(14,547)	(19,293)
Closing net book amount	4,431	16,073	67,330	87,834
As at 31 December 2007				
Cost	5,057	28,307	87,367	120,731
Accumulated amortisation	(626)	(12,234)	(20,037)	(32,897)
Net book amount	4,431	16,073	67,330	87,834

Amortisation charge of the license rights has been charged to distribution costs, while amortisation charge of other intangible assets has been charged to administrative expenses.

## 9. PREPAYMENTS FOR ACQUISITION OF SUBSIDIARIES

Pursuant to an agreement signed by the Group with certain third parties (the "Vendors") on 15 November 2007, the Group agreed to acquire a 57.5% equity interest in 上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.), a company incorporated in the PRC, which, together with its subsidiaries, are principally engaged in manufacturing and sale of sports equipment in the PRC, at total consideration of RMB305,325,000. As at 31 December 2007 and up to the date of this report, the acquisition has not been completed.

Prepayments for acquisition of subsidiaries amounting to RMB66,588,000 represent consideration paid by the Group for the proposed acquisition up to 31 December 2007.

## Notes to the Consolidated Financial Statements *(continued)*

*(All amounts in RMB unless otherwise stated)*

### 10. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	8,983	4,937
Work in progress	3,189	3,200
Finished goods	553,262	369,276
	565,434	377,413
Less: Provision for write-down to net realisable value	(51,487)	(26,869)
	513,947	350,544

The cost of inventories recognised as cost of sales amounted to approximately RMB2,109,676,000 for the year ended 31 December 2007 (2006: RMB1,563,122,000) (see Note 23).

The Group realised a loss of approximately RMB24,618,000 (Note 23) for the year ended 31 December 2007 (2006: RMB14,789,000) in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the consolidated income statements.

### 11. INVESTMENT IN SUBSIDIARIES

	Company 2007 RMB'000	2006 RMB'000
Investment in unlisted shares, at cost	79,568	79,568
Loan to subsidiaries	208,363	305,339
Contribution to the Restricted Share Award Scheme Trust	55,509	6,977
	343,440	391,884

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 2007:

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Directly held:</i>				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002	US\$1,000	100%	Investment holding

## 11. 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
<i>Indirectly held:</i>				
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 Sports 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
上海悅奧體育用品有限公司 (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 Gymnastic 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	100%	Manufacturing of sports goods
李寧體育(中國)有限公司 (Li Ning Sports (China) Co., Ltd.)	The PRC, 6 July 2007	RMB50,000,000	100%	Sale of sports goods



# Notes to the Consolidated Financial Statements *(continued)*

*(All amounts in RMB unless otherwise stated)*

## 11. 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
<i>Indirectly held: (continued)</i>				
李寧體育美國有限公司 (Li Ning Sports USA, Inc.)	USA, 28 August 2007	US\$1,000	100%	Design of athletic shoes and apparel
李寧西班牙有限公司 (Li Ning Spain, S.L.)	Spain, 16 October 2007	EUR3,006	100%	Sale of sports goods
李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.)	The PRC, 19 December 2007	HK\$10,000,000	100%	Sale 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
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

# Notes to the Consolidated Financial Statements *(continued)*

*(All amounts in RMB unless otherwise stated)*

## 11. 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
<i>Indirectly held: (continued)</i>				
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 February 2005	RMB1,000,000	100%	Sale of sports goods
長沙一動體育用品銷售有限公司 (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
青島李寧體育用品銷售有限公司 (Qingdao Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 17 August 2007	RMB1,000,000	100%	Sale of sports goods

## 12.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 brand apparel and footwear products in the PRC.

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated revenue and results of Li-Ning Aigle Ventures and its subsidiary as at and for the year ended 31 December 2007, which have been included in the consolidated balance sheet and income statement.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
<b>Assets</b>		
Non-current assets	417	983
Current assets	20,714	32,819
	<u>21,131</u>	<u>33,802</u>
<b>Liabilities</b>		
Non-current liabilities	10,359	12,559
Current liabilities	4,497	5,406
	<u>14,856</u>	<u>17,965</u>
<b>Net assets</b>	<u>6,275</u>	<u>15,837</u>

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Revenue	12,203	5,469
Expenses	(23,418)	(14,725)
<b>Net loss</b>	<u>(11,215)</u>	<u>(9,256)</u>

As at 31 December 2006 and 2007, the Group did not have any contingent liabilities in respect of its interests in the jointly controlled entities.

## 13.TRADE RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Accounts receivable	639,604	586,635
Notes receivable	49,932	1,228
Less: provision for impairment of receivables	(4,809)	(8,720)
	<u>684,727</u>	<u>579,143</u>

Customers are normally granted credit terms within 90 days. As at 31 December 2007, trade receivables that were neither past due nor impaired amounted to RMB601,966,000 (2006: RMB508,271,000). Trade receivables that were past due but not impaired amounted to RMB82,761,000 (2006: RMB70,872,000) which relate to a number of independent customers for whom there is no recent history of default and with age from 91 to 180 days as at 31 December 2007.

## 13. TRADE RECEIVABLES (continued)

Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	2007 RMB'000	2006 RMB'000
0–30 days	378,180	355,062
31–60 days	115,471	75,361
61–90 days	108,315	77,848
91–180 days	82,761	70,872
181–365 days	2,365	46
Over 365 days	2,444	8,674
	<u>689,536</u>	<u>587,863</u>

As at 31 December 2007, trade receivables of RMB4,809,000 (2006: RMB8,720,000) were impaired for which full provision for impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

Ageing analysis of trade receivables that were impaired is as follows:

	2007 RMB'000	2006 RMB'000
181–365 days	2,365	46
Over 365 days	2,444	8,674
	<u>4,809</u>	<u>8,720</u>

Movement of provision for impairment of trade receivables is as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	8,720	3,716
Provision for impairment of receivables	3,268	5,597
Receivables written off during the year as uncollectible	(6,785)	(593)
Unused amounts reversed	(394)	—
At 31 December	<u>4,809</u>	<u>8,720</u>

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statement (Note 23). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

## Notes to the Consolidated Financial Statements (continued)

(All amounts in RMB unless otherwise stated)

### 14. OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	16,443	10,182	—	—
Prepayment for advertising costs	24,325	29,478	—	—
Rental and other deposits	31,433	19,613	—	—
Prepaid rentals	80,815	21,686	—	—
Others	19,040	28,992	1,197	148
	172,056	109,951	1,197	148
Less: Non-current portion				
— prepaid rentals and deposits	(57,985)	—	—	—
	114,071	109,951	1,197	148

### 15. CASH, CASH EQUIVALENTS AND BANK DEPOSITS

As at 31 December 2007, 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	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and in hand	817,280	736,123	13,606	8,327
Short-term bank deposits	32,607	102,744	3,867	98,915
Fixed deposits held at banks with maturities of more than three months	11,167	10,304	10,167	10,304
	861,054	849,171	27,640	117,546

The effective interest rate on the fixed deposits was 4.7% (2006: 5.2%) per annum. These deposits have an average maturity of 174 days (2006: 134 days).

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

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Denominated in RMB	773,836	703,253	—	—
Denominated in HK Dollars	44,244	129,570	13,602	106,954
Denominated in US Dollars	42,974	16,348	14,038	10,592
	861,054	849,171	27,640	117,546

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.

Cash at banks, short-term deposits and fixed deposits held at bank with maturities of more than three months are neither past due nor impaired and are mainly deposits with banks which are prominent nation wide state-owned banks in the PRC with good credit ratings.



## 16. 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 2006 and 2007	10,000,000	1,000,000

## Issued and fully paid

	Number of shares of HK\$ 0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
At 1 January 2006	1,026,167	108,889	516,381	—	625,270
Net 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)
At 31 December 2006	1,031,488	109,503	462,911	(6,367)	566,047
At 1 January 2007	1,031,488	109,503	462,911	(6,367)	566,047
Net proceeds from shares issued pursuant to share option schemes (Note a)	5,369	520	15,747	—	16,267
Transfer of fair value of share options exercised to share premium	—	—	12,582	—	12,582
Shares vested under Restricted Share Award Scheme	243	—	—	2,156	2,156
Shares purchased for Restricted Share Award Scheme (Note b)	(1,902)	—	—	(39,878)	(39,878)
Dividends paid	—	—	(138,410)	—	(138,410)
At 31 December 2007	1,035,198	110,023	352,830	(44,089)	418,764

## Notes:

- (a) During the year ended 31 December 2007, the Company issued 5,369,000 shares (2006: 6,030,000 shares) of HK\$0.10 each to directors and employees of the Group at weighted-average issued price of HK\$3.14 (2006: HK\$2.56) per share pursuant to the Company's share option schemes (Note 29).
- (b) During the year ended 31 December 2007, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong purchased 1,902,000 (2006: 709,000 shares) of the Company's shares from the open market. The total amount of RMB 39,878,000 (2006: RMB6,367,000) paid to acquire the shares was financed by the Company by way of contributions made to the Trust.

# Notes to the Consolidated Financial Statements (continued)

(All amounts in RMB unless otherwise stated)

## 17. RESERVES Group

	Capital reserves (a) RMB'000	Statutory reserve funds (b) RMB'000	Statutory public welfare fund (b) RMB'000	Share-based compensation reserve RMB'000	Subtotal RMB'000	Retained profits RMB'000	Total RMB'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
Share schemes for value of services provided	—	—	—	22,648	22,648	—	22,648
Transfer of fair value of 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

	Capital reserves (a) RMB'000	Statutory reserve funds (b) RMB'000	Statutory public welfare fund (b) RMB'000	Share-based compensation reserve RMB'000	Subtotal RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2007	45,634	111,159	—	25,691	182,484	650,959	833,443
Profit for the year	—	—	—	—	—	473,606	473,606
Share schemes for value of services provided	—	—	—	33,526	33,526	—	33,526
Transfer of fair value of share options exercised to share premium	—	—	—	(12,582)	(12,582)	—	(12,582)
Vesting of shares under Restricted Share Award Scheme	—	—	—	(2,156)	(2,156)	—	(2,156)
Appropriations to statutory reserves	—	10,617	—	—	10,617	(10,617)	—
As at 31 December 2007	45,634	121,776	—	44,479	211,889	1,113,948	1,325,837

## Company

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

	Accumulated losses RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
As at 1 January 2007	(91,840)	25,691	(66,149)
Loss for the year	(46,351)	—	(46,351)
Share schemes for value of services provided	—	33,526	33,526
Transfer of fair value of share options exercised to share premium	—	(12,582)	(12,582)
Vesting of shares under Restricted Share Award Scheme	—	(2,156)	(2,156)
As at 31 December 2007	(138,191)	44,479	(93,712)

## 17. RESERVES (Continued)

### Company (Continued)

#### (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 determined in accordance with the PRC accounting regulations 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 determined in accordance with the PRC accounting regulations 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 determined in accordance with the PRC accounting regulations to Reserve Fund after offsetting accumulated losses from prior years. The percentage of appropriation is determined by the board of directors of the companies.

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 determined in accordance with the PRC accounting regulations 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 2007, the Company had reserves available for distribution amounting to approximately RMB259,118,000 (2006: RMB 396,762,000).

## Notes to the Consolidated Financial Statements *(continued)*

*(All amounts in RMB unless otherwise stated)*

### 18. 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:

	2007 RMB'000	2006 RMB'000
0 – 30 days	424,189	310,120
31 – 60 days	52,489	102,647
61 – 90 days	6,624	7,653
91 – 180 days	5,362	3,015
181 – 365 days	1,209	346
Over 365 days	544	679
	<u>490,417</u>	<u>424,460</u>

### 19. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Accrued sales and marketing expenses	73,740	29,347	—	—
Advances from customers	86,267	14,782	—	—
Wages and welfare payables	97,941	83,982	764	—
Payables for property, plant and equipment and land use rights	24,963	12,000	—	—
Other payables	57,666	67,170	2,372	3,313
	<u>340,577</u>	<u>207,281</u>	<u>3,136</u>	<u>3,313</u>

## 20. LICENSE FEES PAYABLE

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

Movement of the license fees payable during the year is as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	70,740	—
Acquisition of license rights	14,281	73,086
Payment of license fees	(13,423)	(2,340)
Amortisation of discount	4,897	2,064
Adjustment for exchange difference	(5,657)	(2,070)
At 31 December	70,838	70,740
Analysis of license fees payable		
Non-current, after the fifth year	—	3,801
Non-current, the second to fifth year	57,604	55,953
Current	13,234	10,986
	70,838	70,740
Estimated fair value as at 31 December		
Current portion	13,168	10,986
Non-current portion	56,463	59,754
	69,631	70,740

The maturity profile of the Group's license fees payable based on contractual undiscounted cash flows is as follows:

	2007 RMB'000	2006 RMB'000
Less than 1 year	14,609	11,323
Between 1 and 5 years	68,298	68,716
Over 5 years	—	5,466
	82,907	85,505

License fees payable are recognised based on discounted rates of 6.30% to 7.65% per annum, which approximated the then external bank borrowings rates at the inception of the respective balances.

The estimated fair value is calculated based on discount rates of 6.48% to 6.84% per annum and 7.56% to 7.83% per annum as at 31 December 2006 and 31 December 2007 respectively, which approximated the bank borrowings rates quoted by major banks in the PRC.

The license fees payable are mainly denominated in US dollars.



## Notes to the Consolidated Financial Statements (continued)

(All amounts in RMB unless otherwise stated)

### 21. BORROWINGS

	2007 RMB'000	2006 RMB'000
Short-term bank borrowings — unsecured	100,000	—

The short-term bank borrowings are denominated in RMB and bear interest at fixed rate of 7.29% per annum.

### 22. DEFERRED INCOME TAX

The movement in deferred income tax assets/(liabilities) is as follows:

Deferred income tax assets	Provisions RMB'000	Share schemes RMB'000	Unrealised profit on intra-group sales RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	—	—	—	—	—
Credited to income statement	4,492	7,963	—	—	12,455
At 31 December 2006	4,492	7,963	—	—	12,455
At 1 January 2007	4,492	7,963	—	—	12,455
Effects of change in tax rate	(559)	(1,571)	—	—	(2,130)
Credited to income statement	6,578	2,434	7,998	2,266	19,276
At 31 December 2007	10,511	8,826	7,998	2,266	29,601

Deferred income tax liabilities	Others RMB'000
At 1 January 2006 and 31 December 2006	—
At 1 January 2007	—
Charged to income statement	(1,217)
At 31 December 2007	(1,217)

Deferred income tax assets	2007 RMB'000	2006 RMB'000
— to be recovered within 12 months	19,613	6,881
— to be recovered after more than 12 months	9,988	5,574
	29,601	12,455

Deferred income tax liabilities	2007 RMB'000	2006 RMB'000
— to be recovered within 12 months	(969)	—
— to be recovered after more than 12 months	(248)	—
	(1,217)	—

## 22.DEFERRED INCOME TAX (Continued)

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which will be effective from 1 January 2008. According to the new CIT Law, the CIT for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. The directors considered that there might be a transition period for certain of the group companies that currently receive preferential tax treatments granted by the relevant tax authorities to be taxable under the 25% unified tax rate. However, as of 31 December 2007, the detailed implementation rules relating to the transitional arrangement have not been published (see Note 4(b)).

## 23.EXPENSES BY NATURE

	2007 RMB'000	2006 RMB'000
Costs of inventories recognised as expenses included in cost of sales	2,109,676	1,563,122
Depreciation on property, plant and equipment	52,041	27,307
Amortisation of intangible assets	19,293	8,306
Amortisation of land use rights	575	276
Advertising and marketing expenses	695,559	521,839
Employee benefit expense — directors	23,681	12,262
Employee benefit expense — employees	302,266	244,477
Operating lease rentals in respect of land and buildings	125,747	108,214
Research and product development expenses	138,501	78,837
Transportation and logistics expenses	73,827	53,686
Provision for impairment charge of trade receivables	2,874	5,597
Write-down of inventories to net realisable value	24,618	14,789
Auditors' remuneration	3,700	3,120
Management consulting expenses	36,280	29,452
Travelling and entertainment expenses	73,290	56,511
Other expenses	87,949	79,791
Total of cost of sales, distribution costs and administrative expenses	3,769,877	2,807,586

## 24.OTHER INCOME

	2007 RMB'000	2006 RMB'000
Government grants (Note a)	30,822	24,591
Net gain on disposal of a subsidiary	—	4,970
Others	163	—
	30,985	29,561

Note:

- (a) During the year ended 31 December 2007, the Group received subsidies from various local governments in the PRC amounting to RMB30,822,000 (2006: RMB24,591,000).

## 25.EMPLOYEE BENEFIT EXPENSES

	2007 RMB'000	2006 RMB'000
Wages and salaries	185,896	138,979
Contributions to retirement benefit plan (c)	21,576	15,143
Share options granted to directors and employees	33,526	22,648
Staff quarters and housing benefits	7,189	4,879
Other benefits	77,760	75,090
	325,947	256,739

## 25.EMPLOYEE BENEFIT EXPENSES (Continued)

## (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 RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'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
Ms. Wang Ya Fei, Jane	151	—	—	170	—	321
Mr. Lim Meng Ann	151	—	—	170	—	321
Mr. Stuart Schonberger	151	—	—	170	—	321
Mr. Fong Ching (ii)	121	—	—	43	—	164
Mr. Koo Fook Sun, Louis	151	—	—	170	—	321
Mr. Chan Chung Bun, Bunny	151	—	—	52	—	203

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Li Ning	804	1,733	2,167	130	185	5,019
Mr. Zhang Zhi Yong	504	1,427	4,590	2,501	177	9,199
Mr. Tan Wee Seng	404	506	—	5,996	78	6,984
Ms. Wang Ya Fei, Jane	188	—	—	271	—	459
Mr. Lim Meng Ann	188	—	—	382	—	570
Mr. Stuart Schonberger	164	—	—	271	—	435
Mr. Koo Fook Sun, Louis	188	—	—	271	—	459
Mr. Chan Chung Bun, Bunny	164	—	—	221	—	385
Mr. Chu Wah Hui	109	—	—	—	—	109
Mr. James Chun-Hsien Wei	62	—	—	—	—	62

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

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

## (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors for the year ended 31 December 2007 (2006: two 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:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	2,028	1,768
Other benefits	3,324	2,266
Contributions to retirement benefit scheme	59	175
	<u>5,411</u>	<u>4,209</u>

## 25.EMPLOYEE BENEFIT EXPENSES (Continued)

## (b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emoluments bands		
RMB3,000,001 to RMB5,000,000	1	—
RMB1,000,000 to RMB3,000,000	1	1
Up to RMB1,000,000	—	2
	<u>2</u>	<u>3</u>

- (c) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments 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.

## 26.FINANCE INCOME AND COSTS

	2007 RMB'000	2006 RMB'000
Amortisation of discount — license fees payable (Note 20)	(4,897)	(2,064)
Interest expense on bank borrowings	(327)	—
Net foreign currency exchange loss	—	(13,749)
Finance costs	<u>(5,224)</u>	<u>(15,813)</u>
Interest income on bank balances and deposits	11,147	14,448
Net foreign currency exchange gain	2,754	—
Finance income	<u>13,901</u>	<u>14,448</u>
Finance income/(costs) — net	<u>8,677</u>	<u>(1,365)</u>

## 27.INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
Current taxation		
— Hong Kong profits tax (Note b)	1,808	582
— The PRC enterprise income tax (Note c)	158,656	117,963
	<u>160,464</u>	<u>118,545</u>
Deferred income tax	<u>(15,929)</u>	<u>(12,455)</u>
	<u>144,535</u>	<u>106,090</u>

## Notes to the Consolidated Financial Statements (continued)

(All amounts in RMB unless otherwise stated)

### 27. INCOME TAX EXPENSE (Continued)

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 2007 (2006: 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 in the PRC, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% under the relevant PRC tax rules and regulations.

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:

	2007 RMB'000	2006 RMB'000
Profit before income tax	618,532	401,153
Tax calculated at a tax rate of 33% (2006: 33%)	204,115	132,380
Effects of different tax rate in Hong Kong	(1,616)	(2,676)
Preferential tax rates on the income of certain subsidiaries	(59,840)	(51,951)
Tax losses for which no deferred taxation is recognised	5,832	13,937
Expenses not deductible for tax purposes	14,266	23,341
Tax credit granted to subsidiaries	(13,525)	(7,170)
Income not subject to tax	(6,827)	(1,771)
Effects of change in tax rate on deferred income tax	2,130	—
Taxation charge	144,535	106,090

The weighted average applicable tax rate was 23.4% (2006: 26.4%).

### 28. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Interim dividend paid of RMB5.76 cents (2006: RMB3.80 cents) per ordinary share	59,488	38,863
Proposed final dividend of RMB7.96 cents (2006: RMB4.79 cents) per ordinary share	82,402	49,445
Proposed special dividend of RMB9.13 cents (2006: RMB2.85 cents) per ordinary share	94,513	29,415
	236,403	117,723

Note:

At a Board meeting held on 20 March 2007, Directors proposed a final dividend of RMB4.79 cents and a special dividend of RMB2.85 cents per ordinary share.

At a Board meeting held on 18 March 2008, Directors proposed a final dividend of RMB7.96 cents and a special dividend of RMB9.13 cents per ordinary share, totalling RMB82,402,000 and RMB94,513,000 respectively, for the year ended 31 December 2007. These proposed dividends are 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 2008.



## 29.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.

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:

	2007		2006	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	0.66	12,627	0.65	20,370
Granted	0.86	785	0.86	4,500
Exercised	0.63	(3,361)	0.72	(11,474)
Lapsed	0.86	(307)	0.86	(769)
As at 31 December	0.68	9,744	0.66	12,627
Exercisable as at 31 December	0.54	6,825	0.49	8,727

## 29.SHARE-BASED COMPENSATION (Continued)

## (a) Share Purchase Scheme (Continued)

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

Expiry date	2007		2006	
	Weighted average exercise price (per share) HK\$	Share options (Thousands)	Weighted average exercise price (per share) HK\$	Share options (Thousands)
8 June 2010	0.54	5,658	0.55	8,332
11 November 2011	0.86	245	0.86	395
5 July 2012	0.86	2,922	0.86	3,700
30 August 2012	0.86	134	0.86	200
1 January 2013	0.86	300	—	—
2 July 2013	0.86	19	—	—
1 September 2013	0.86	200	—	—
16 November 2013	0.86	116	—	—
27 November 2013	0.86	150	—	—
		<u>9,744</u>		<u>12,627</u>

## (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).

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

	2007		2006	
	Exercise price (per share) HK\$	Outstanding options (Thousands)	Exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	1.8275	7,245	1.8275	11,512
Exercised	1.8275	(2,567)	1.8275	(3,644)
Lapsed	1.8275	(22)	1.8275	(623)
As at 31 December	1.8275	4,656	1.8275	7,245
Exercisable as at 31 December	1.8275	4,656	1.8275	3,244

## 29.SHARE-BASED COMPENSATION (Continued)

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

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

Expiry date	2007		2006	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
5 June 2010	1.8275	4,656	1.8275	7,245

## (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 at 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.

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.

## 29.SHARE-BASED COMPENSATION (Continued)

## (c) Share Option Scheme (Continued)

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

	2007		2006	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
At 1 January	4.951	15,295	3.685	15,505
Granted	19.680	350	8.596	3,778
Exercised	4.338	(2,802)	3.685	(2,386)
Lapsed	6.014	(386)	4.109	(1,602)
Cancelled	6.377	(172)	—	—
At 31 December	5.634	12,285	4.951	15,295
Exercisable as at 31 December	4.398	5,462	3.685	2,638

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

	2007		2006	
Expiry date	Weighted average exercise price (per share) HK\$	Share options (Thousands)	Weighted average exercise price (per share) HK\$	Share options (Thousands)
4 July 2011	3.685	8,962	3.685	11,649
3 January 2012	5.500	275	5.500	360
4 September 2012	8.830	2,398	8.830	2,896
11 October 2012	8.950	—	8.950	90
20 November 2012	9.840	300	9.840	300
19 July 2013	19.680	350	—	—
		12,285		15,295

## (d) Fair value of share options

The fair value of the options granted under the above schemes during the years ended 31 December 2007 and 2006 determined using Black-Scholes valuation model were as follows:

	2007 RMB'000	2006 RMB'000
Alpha Talent Options	12,463	27,068
Post-IPO Options	2,242	10,771

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 2007 were RMB15,370,000, RMB406,000, and RMB7,822,000 respectively (2006: RMB11,705,000, RMB1,422,000 and RMB8,429,000).

## 29.SHARE-BASED COMPENSATION (Continued)

## (d) Fair value of share options (Continued)

Significant inputs into the model are as follows:

	2007	2006
Alpha Talent Option		
Weighted average share price (HK\$)	19.03	7.26
Weighted average exercise price (HK\$)	0.86	0.86
Expected volatility	45.3%	43.7%
Expected option life (years)	3.70	4.00
Weighted average annual risk free interest rate	3.64%	4.7%
Expected dividend yield	2.0%	2.0%

	2007	2006
Post-IPO Option		
Weighted average share price (HK\$)	19.68	8.53
Weighted average exercise price (HK\$)	19.68	8.60
Expected volatility	44.4%	43.8%
Expected option life (years)	4.00	3.98
Weighted average annual risk free interest rate	4.6%	4.0%
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) as at the date of grant.

## (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 20,556,000 shares, being 2% of the Company's issued share capital 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 share capital as at the adoption date of 14 July 2006.



## 29.SHARE-BASED COMPENSATION (Continued)

## (e) Restricted Share Award Scheme (Continued)

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

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

	2007		2006	
	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)
At 1 January	9.10	757	—	—
Granted	22.42	2,305	9.10	763
Vested	9.10	(243)	—	—
Lapsed	15.19	(85)	9.01	(6)
At 31 December	20.14	2,734	9.10	757

The fair value of Restricted Share Award Scheme charged to the income statement during the year was RMB9,928,000 (2006: RMB1,092,000).

## 30.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 share held for Restricted Share Award Scheme.

	2007 RMB'000	2006 RMB'000
Profit attributable to equity holders of the Company	473,606	294,846
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,033,343	1,029,030
Basic earnings per share (RMB cents)	45.83	28.65

## 30. 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:

	2007 RMB'000	2006 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	473,606	294,846
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,033,343	1,029,030
Adjustment for share options and awarded shares (in thousands)	16,974	14,537
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,050,317	1,043,567
Diluted earnings per share (RMB cents)	45.09	28.25

## 31. CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash flow generated from operations are as follows:

	2007 RMB'000	2006 RMB'000
Profit before taxation	618,532	401,153
Adjustments for:		
Depreciation	52,041	27,307
Amortisation	19,868	8,582
Others	(163)	—
Provision for impairment charge of trade receivables	2,874	5,597
Write-down of inventories to net realisable value	24,618	14,789
Net gain on disposal of a subsidiary	—	(4,970)
Share options and restricted shares granted to directors and employees	33,526	22,648
Loss on disposals of property, plant and equipment, land use rights and intangible assets	140	1,564
Finance (income)/costs—net	(8,677)	1,365
Operating profit before working capital changes	742,759	478,035
Increase in inventories	(188,021)	(83,295)
Increase in trade receivables	(108,458)	(213,084)
Increase in other receivables and prepayments	(67,808)	(48,489)
Increase in trade payables	65,957	226,561
Increase in other payables and accruals	121,483	35,639
Cash inflow generated from operations	565,912	395,367

## Notes to the Consolidated Financial Statements (continued)

(All amounts in RMB unless otherwise stated)

### 32.COMMITMENTS

#### (a) Capital commitments

Capital expenditures authorised but not contracted for and contracted but not paid for by the Group at the balance sheet date are as follows:

	2007 RMB'000	2006 RMB'000
Property, plant and equipment		
— authorised but not contracted for	—	5,243
— contracted but not paid for	69,385	102,601
	<u>69,385</u>	<u>107,844</u>

#### (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:

	2007 RMB'000	2006 RMB'000
No later than 1 year	148,697	47,933
Later than 1 year and not later than 5 years	408,382	157,183
Later than 5 years	319,488	6,413
	<u>876,567</u>	<u>211,529</u>

### 33.SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group has following significant related party transaction:

	2007 RMB'000	2006 RMB'000
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	2,117	3,729

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.

# Glossary

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

“AIGLE”	Aigle International S.A., a corporation organized under the laws of France
“Alpha Talent”	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
“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 Main Board of 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”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Post-IPO Share Option Scheme”	the post-IPO share option scheme of the Company adopted on 5 June 2004
“PRC” or “China”	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



# LI-NING

李寧牌店舖 Brand Outlets





Li Ning  
City 李寧城