Notes to the Accounts

(Expressed in RMB'000 unless otherwise stated)

1 Basis of presentation and principal activities

Li Ning Company Limited (the "Company") and its subsidiaries (together the "Group") have its own brand and are principally engaged in brand development, design, manufacturing, sales and distribution of sports-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. Pursuant to a reorganisation dated 5 June 2004, the Company acquired the entire issued share capital of RealSports Pte. Ltd. ("RealSports"), the then holding company of the other companies comprising the Group and became the holding company of the Group. The reorganisation has been accounted for in a manner similar to pooling-of-interests, under which the consolidated income statement and cash flow statement for the year ended 31 December 2004 included the results of operations and cash flows of the companies comprising the Group from 1 January 2004 or since their dates of incorporation or dates of becoming members of the Group, whichever is later, to 31 December 2004. The balance sheets as at 31 December 2004 have been prepared to present the financial positions of the Company and the Group as if the current group structure had been in existence since 1 January 2004.

The address of registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 28 June 2004.

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.

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared 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.

(Expressed in RMB'000 unless otherwise stated)

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Standards and amendments to published standards effective in 2005

In 2005, the Group adopted the following new/revised IFRS that are relevant to the operations of the Group. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to directors and employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. In accordance with IFRS 2, the cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statements of the respective periods.

The main impact of IFRS 2 on the Group is the expensing of share options granted under the Share Purchase Scheme, the Pre-IPO Share Option Scheme and the Share Option Scheme. Refer to Note 27 for details of such schemes. The effect of the change of policy has decreased the Group's profit for the year ended 31 December 2005 by RMB27,557,000 (2004: RMB11,025,000) as a result of increased staff costs, and a corresponding increase in other reserves. In addition, such change of policy has decreased basic earnings per share by RMB2.69 cents for the year ended 31 December 2005 (2004: decrease by RMB1.24 cents).

The adoption of the other standards as mentioned above, being IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 32, 33, 39, and IFRS 3 and 5 did not result in substantial changes to the Group's accounting policies, except that IAS 1 has affected the presentation of minority interests and other disclosure. Also in accordance with IAS 21, the functional currency of each of the companies comprising the Group has been re-evaluated based on the guidance under the revised standard.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Standards, amendments and interpretations to published standards that are not effective in 2005

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006, which the Group has not early adopted, as follows:

IAS 19 (Amendment)	Employee Benefits
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 1 (Amendment)	First-time Adoption of IFRS
IFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment

The directors have assessed the impact of these new standards, amendments and interpretations to existing standards and have concluded that IAS 19, IFRS 1, IFRS 6, IFRIC 5 and IFRIC 6 are not relevant to the Group's situations. The Group is currently assessing the impact of the remaining standards or interpretations and will adopt them as appropriate in the 2006 financial statements.

(b) Consolidation

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

(i) 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 no longer consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment 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.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) 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 recognizes the portion of gains or losses on the sale of assets by the Group to the JCE that is attributable to the other venturers. The Group does not recognize 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 recognized 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 results of the JCE are accounted for by the Company on the basis of dividends received and receivable.

(c) Segment reporting

Business segments provide products or services that are subject to risks and returns different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns different from those components operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format. No geographical segment is presented as most of the Group's of operations and assets are located in the PRC.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, operating receivables and cash and cash equivalents, and mainly exclude deferred tax assets. Segment liabilities comprises operating liabilities and exclude items such as current and deferred tax liabilities. Capital expenditure mainly comprises additions to property, plant and equipment, land use rights and intangible assets.

(d) Foreign currency translation

(i) 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 currency of all entities comprising the Group and the presentation currency of the Company.

(ii) 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income statement.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(iii) 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:

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) 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 transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognized as a separate component of equity.

(e) Property, plant and equipment (excluding construction-in-progress)

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 for its intended use.

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 improvements	2 years or over the lease term, whichever is shorter period
Machinery	10 -18 years
Motor vehicles and office equipment	3 – 12 years

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

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

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

2 Summary of significant accounting policies (Continued)

(f) Construction-in-progress

Construction-in-progress represents buildings, plant and/or machinery under construction and 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. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note (e) of this section.

(g) Land use right

Land use right represents prepaid lease payments for the use of land in the PRC and are amortised over the lease period varying from 20 to 50 years on a straight-line basis.

(h) Intangible assets

(i) 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 maintaining computer software programmes are recognised as an expense as incurred, and expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

(ii) Trademarks

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

(i) Impairment of long lived assets

Property, plant and equipment, construction-in-progress, land use rights and intangible assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(j) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2 Summary of significant accounting policies (Continued)

(j) Investments (Continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. As at 31 December 2004 and 2005, the Group did not hold any investments in this category.

(ii) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are included in accounts receivable and other receivables in the balance sheet.

(iii) 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. As at 31 December 2004 and 2005, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. As at 31 December 2004 and 2005, the Group did not have any investments in the category.

Purchases and sales of investments are recognized on trade-date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized 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. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities. 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)

(k) 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 raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Accounts receivable

Accounts receivable are carried at original invoice amounts less provision made for impairment of these receivables. Such provision for impairment of accounts 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 receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the income statement.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheets at cost. For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(n) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are stated subsequently at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(o) Borrowing costs

All borrowing costs are expensed as incurred.

(p) Share capital

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

(q) Deferred income tax

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 financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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 investment in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Summary of significant accounting policies (Continued)

(r) Director and employee benefits

(i) Pension obligations

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

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

(ii) Share-based payments

The Group maintains several equity-settled, share-based compensation plans. The fair value of the director and employee services received in exchange for the grant of the options is credited to other reserves and recognized as an expense over vesting period and is determined by reference to the fair value of the options 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 that are expected to become exercisable. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

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.

(iii) 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.

(s) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(t) Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

2 Summary of significant accounting policies (Continued)

(u) Operating leases

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

(v) Contingent liabilities and contingent assets

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 of 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

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

(x) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the board of directors. Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates.

(i) Foreign exchange risk

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

The proceeds derived from the initial public offering of the Company in June 2004 ("IPO") are denominated in Hong Kong Dollars ("HK$"). Certain sum has been deposited into various bank deposit accounts denominated in HK$ or United States Dollars ("US$"). In addition, the Company is required to pay dividends in HK$ when dividends are declared.

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

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets, other than cash at banks. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings during the year (nil balance as at 31 December 2005). The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

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

(b) Fair value estimation

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables, short-term borrowings and other payables are assumed to approximate their fair values. The fair value of financial 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.

(Expressed in RMB'000 unless otherwise stated)

4 Turnover and segment information

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

Primary reporting format – business segment

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

Secondary reporting format – geographical segment

Substantially all assets and operations of the Group during the two years ended 31 December 2004 and 2005 were 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.

5 Other income

	2005	2004
Subsidies from local governments (note a)	**29,535**	17,399
Net gain on disposal of a subsidiary (note b)	**3,091**	–
	32,626	17,399

Notes:

(a) During the year, the Group received subsidies from various local governments in the PRC amounting to RMB29,535,000 (2004: RMB17,399,000).

(b) During the year, the Group disposed of Beijing Dong Xiang Sports Development Co., Ltd. ("Beijing Dong Xiang"), a company incorporated in the PRC which is principally engaged in sales of "KAPPA" branded products, to Shanghai Tai Tan Sporting Goods Co., Ltd. ("Shanghai Tai Tan"), a company incorporated in the PRC in which Mr. Chen Yi Hong, a former director, has a beneficial interest, and recognized gain on disposal of RMB3,091,000.

6 Expenses by nature

	2005	2004
Costs of inventories recognized as expenses included in cost of sales	**1,226,719**	987,622
Depreciation on property, plant and equipment	**22,310**	18,147
Amortization of intangible assets	**2,498**	2,067
Amortization of land use rights	**130**	207
Advertising and marketing expenses	**377,667**	267,769
Director and employee benefit expense (note 7)	**228,620**	189,605
Operating lease rentals in respect of land and buildings	**98,966**	80,794
Research and product development	**43,703**	35,895
Transportation and logistics expenses	**54,942**	44,730
Write-back of impairment charge of accounts receivable	**(2,211)**	(7,030)
Write-down of inventories to net realizable value/(reversal of write-down)	**5,318**	(5,201)
Auditors' remuneration	**2,788**	2,766
Other expenses	**150,215**	97,712
Total of cost of sales, distribution and administrative expenses	**2,211,665**	1,715,083

7 Director and employee benefit expense

	2005	2004
Wages and salaries	**142,217**	133,605
Contributions to retirement benefit plan	**14,011**	16,255
Share option costs	**27,557**	11,025
Staff quarters and housing benefits	**4,751**	3,861
Other benefits	**40,084**	24,859
	228,620	189,605

(Expressed in RMB'000 unless otherwise stated)

7 Director and employee benefit expense (Continued)

(a) Directors' and senior management's emoluments

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

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits (i)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Mr. Li Ning	412	1,814	1,093	–	583	109	–	4,011
Mr. Zhang Zhi Yong	412	1,120	729	–	2,385	126	–	4,772
Mr. Tan Wee Seng	412	573	662	–	1,336	–	–	2,983
Mr. Chen Yi Hong (ii)	274	582	–	–	2,996	67	1,497	5,416
Ms. Wang Ya Fei, Jane	160	–	–	–	–	–	–	160
Mr. Lim Meng Ann	160	–	–	–	–	–	–	160
Mr. Stuart Schonberger	160	–	–	–	–	–	–	160
Mr. Fong Ching, Eddy	160	–	–	–	–	–	–	160
Mr. Koo Fook Sun, Louis	160	–	–	–	–	–	–	160
Mr. Chan Chung Bun, Bunny	160	–	–	–	–	–	–	160

The remuneration of each director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits (i)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Mr. Li Ning	1,800	557	820	–	383	118	–	3,678
Mr. Zhang Zhi Yong	523	1,337	610	–	298	121	–	2,889
Mr. Tan Wee Seng	851	805	1,097	–	–	–	–	2,753
Mr. Chen Yi Hong (ii)	232	1,051	385	–	–	165	–	1,833
Ms. Wang Ya Fei, Jane	81	–	–	–	–	–	–	81
Mr. Lim Meng Ann	81	–	–	–	–	–	–	81
Mr. Stuart Schonberger	81	–	–	–	–	–	–	81
Mr. Fong Ching, Eddy	81	–	–	–	–	–	–	81
Mr. Koo Fook Sun, Louis	81	–	–	–	–	–	–	81
Mr. Chan Chung Bun, Bunny	81	–	–	–	–	–	–	81

7 Director and employee benefit expense (Continued)

(a) Directors' and senior management's emoluments (Continued)

(i) Other benefits include insurance premium, housing allowance and share options granted to the respective directors under the Share Purchase Scheme and Pre-IPO Share Option Scheme which have already been exercised by them during the year (the value set out being the difference between the exercise prices and the market prices of the Company's shares on the relevant exercise dates).

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

(iii) In addition to the above, the fair value of the unexercised share options granted to the respective directors under the Share Purchase Scheme, Pre-IPO Share Option Scheme and Share Option Scheme charged to the income statement during the year is as follows:

Name of Director	2005	2004
Mr. Zhang Zhi Yong	**5,368**	3,077
Mr. Tan Wee Seng	**1,890**	1,074
Mr. Chen Yi Hong (ii)	**–**	205
Ms. Wang Ya Fei, Jane	**81**	–
Mr. Lim Meng Ann	**81**	–
Mr. Stuart Schonberger	**81**	–
Mr. Fong Ching, Eddy	**81**	–
Mr. Koo Fook Sun, Louis	**81**	–

Although the fair value of the options is calculated in accordance with IFRS 2, it does not necessarily reflect the value to the respective directors as the options have not yet been exercised and no implication is made as to whether such options will be exercised by the respective directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included four directors for the year ended 31 December 2005 (2004: four directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining individual whose emoluments were the highest in the Group for the year are as follows:

	2005	2004
Salaries and allowances	**817**	959
Other benefits	**2,360**	–
Contributions to retirement benefit scheme	**45**	47
	3,222	1,006

In addition to the above, the fair value of the unexercised share options granted to the individual under the Share Purchase Scheme, Pre-IPO Share Option Scheme and Share Option Scheme charged to the income statement for the year ended 31 December 2005 is RMB269,000 (2004: RMB493,000).

(Expressed in RMB'000 unless otherwise stated)

8 Finance income, net

	2005	2004
Interest expenses on bank borrowings wholly repayable within 5 years	**1,102**	4,369
Interest income on bank balances and deposits	**(14,026)**	(3,715)
Net foreign currency exchange loss/(gain)	**10,970**	(1,475)
	(1,954)	(821)

9 Taxation

	2005	2004
Current taxation		
– Hong Kong profits tax	**365**	430
– The PRC enterprise income tax	**84,741**	57,056
	85,106	57,486

(a) The Company was incorporated in the Cayman Islands. Under current laws of Cayman Islands, there are no income, estate, corporation and capital gains subject to income tax 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 profit arising in Hong Kong for the year ended 31 December 2005 (2004: 17.5%).

9 Taxation (Continued)

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

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

	2005	2004
Profit before taxation	**273,451**	181,239
Tax calculated at a tax rate of 33%	**90,239**	59,809
Effects of different tax rate in Hong Kong	**(324)**	(380)
Preferential tax rates on the income of certain subsidiaries	**(33,684)**	(42,121)
Tax losses not recognized	**8,937**	12,545
Expenses not deductible for tax purposes	**26,719**	27,921
Tax credit granted to a subsidiary	**(6,483)**	–
Income not subject to tax	**(298)**	(288)
Taxation charge	**85,106**	57,486

The weighted average applicable tax rate is 31.1% (2004: 31.7%).

10 Dividends

	2005	2004
Interim dividend paid of RMB2.30 cents (2004: Nil) per ordinary share (note a)	**22,649**	40,000
Proposed final dividend of RMB5.00 cents (2004: RMB4.57 cents) per ordinary share (note b)	**51,308**	46,753
	73,957	86,753

Notes:

(a) At a board meeting held on 25 August 2005, the directors declared an interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) per ordinary share, totalling RMB22,649,000 for the six months ended 30 June 2005.

The comparative figure amounting to RMB40,000,000 represents a special distribution declared by RealSports Pte Ltd., the intermediate holding company, to its then equity holders prior to the Company's IPO in Hong Kong.

(b) At a board meeting held on 29 March 2005, the directors proposed a final dividend of RMB4.57 cents (equivalent to HK4.30 cents) per ordinary share, totalling RMB46,753,000 for the year ended 31 December 2004. The dividend was approved by and paid to shareholders in 2005.

At a board meeting held on 22 March 2006, the directors proposed a final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share, totalling RMB51,308,000 for the year ended 31 December 2005. The translation of RMB into Hong Kong dollars is made at the exchange rate as at 31 December 2005. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be based on the official exchange rate of RMB against Hong Kong dollars on 12 May 2006, being the date of the annual general meeting on which the final dividend is proposed to the shareholders for approval. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2006.

11 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company	**186,800**	122,414
Weighted average number of ordinary shares in issue (thousands)	**1,023,827**	888,392
Basic earnings per share (RMB cents)	**18.25**	13.78

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised shares which may be issued under its share option schemes. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options, 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.

	2005	2004
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**186,800**	122,414
Weighted average number of ordinary shares in issue (thousands)	**1,023,827**	888,392
Adjustment for share options (thousands)	**6,750**	1,871
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,030,577**	890,263
Diluted earnings per share (RMB cents)	**18.13**	13.75

12 Property, plant and equipment

	Buildings	Leasehold improvement	Machinery	Motor vehicles and office equipment	Construction-in-progress	Total
As at 1 January 2004						
Cost	70,873	11,961	11,442	38,883	–	133,159
Accumulated depreciation	(23,289)	(6,774)	(4,249)	(17,363)	–	(51,675)
Net book amount	47,584	5,187	7,193	21,520	–	81,484
Year ended 31 December 2004						
Opening net book amount	47,584	5,187	7,193	21,520	–	81,484
Additions	600	11,574	998	14,454	3,519	31,145
Disposals	(2,715)	–	(265)	(2,103)	–	(5,083)
Transfer	–	–	–	3,369	(3,369)	–
Depreciation charge	(2,812)	(6,228)	(1,996)	(7,111)	–	(18,147)
Closing net book amount	42,657	10,533	5,930	30,129	150	89,399
As at 31 December 2004						
Cost	68,759	23,535	9,527	43,339	150	145,310
Accumulated depreciation	(26,102)	(13,002)	(3,597)	(13,210)	–	(55,911)
Net book amount	42,657	10,533	5,930	30,129	150	89,399
Year ended 31 December 2005						
Opening net book amount	**42,657**	**10,533**	**5,930**	**30,129**	**150**	**89,399**
Additions	**549**	**12,296**	**2,580**	**12,439**	**10,682**	**38,546**
Disposals	**–**	**(617)**	**(30)**	**(936)**	**–**	**(1,583)**
Reclassification	**(797)**	**797**	**324**	**(324)**	**–**	**–**
Disposal of a subsidiary	**–**	**(710)**	**–**	**(1,760)**	**(5,786)**	**(8,256)**
Depreciation charge	**(2,483)**	**(9,626)**	**(1,157)**	**(9,044)**	**–**	**(22,310)**
Closing net book amount	**39,926**	**12,673**	**7,647**	**30,504**	**5,046**	**95,796**
As at 31 December 2005						
Cost	**66,957**	**29,539**	**13,648**	**54,914**	**5,046**	**170,104**
Accumulated depreciation	**(27,031)**	**(16,866)**	**(6,001)**	**(24,410)**	**–**	**(74,308)**
Net book amount	**39,926**	**12,673**	**7,647**	**30,504**	**5,046**	**95,796**

(Expressed in RMB'000 unless otherwise stated)

12 Property, plant and equipment (Continued)

Buildings are located in the PRC and are built on land for which the Group had land use rights for periods varying from 20 to 50 years.

Depreciation expense of RMB12,076,000 (2004: RMB9,882,000) has been charged in administrative expenses, RMB8,644,000 (2004: RMB5,104,000) in distribution expenses and RMB1,590,000 (2004: RMB3,161,000) in cost of inventories.

13 Land use rights

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

As at 1 January 2004	
Cost	5,390
Accumulated amortization	(1,126)
Net book amount	4,264
Year ended 31 December 2004	
Opening net book amount	4,264
Amortization	(207)
Closing net book amount	4,057
As at 31 December 2004	
Cost	5,390
Accumulated amortization	(1,333)
Net book amount	4,057
Year ended 31 December 2005	
Opening net book amount	**4,057**
Disposal	**(70)**
Amortization	**(130)**
Closing net book amount	**3,857**
As at 31 December 2005	
Cost	**5,320**
Accumulated amortization	**(1,463)**
Net book amount	**3,857**

Amortization charge of RMB130,000 (2004: RMB207,000) is included in administrative expenses.

14 Intangible assets

	Trademark	Computer Software	Total
As at 1 January 2004			
Cost	1,526	4,566	6,092
Accumulated amortization	(146)	(2,171)	(2,317)
Net book amount	1,380	2,395	3,775
Year ended 31 December 2004			
Opening net book amount	1,380	2,395	3,775
Additions	–	7,655	7,655
Amortization	(81)	(1,986)	(2,067)
Closing net book amount	1,299	8,064	9,363
As at 31 December 2004			
Cost	1,526	12,221	13,747
Accumulated amortization	(227)	(4,157)	(4,384)
Net book amount	1,299	8,064	9,363
Year ended 31 December 2005			
Opening net book amount	**1,299**	**8,064**	**9,363**
Additions	**1,527**	**1,848**	**3,375**
Disposal of a subsidiary	**–**	**(278)**	**(278)**
Disposals	**–**	**(2)**	**(2)**
Amortization	**(158)**	**(2,340)**	**(2,498)**
Closing net book amount	**2,668**	**7,292**	**9,960**
As at 31 December 2005			
Cost	**3,053**	**13,441**	**16,494**
Accumulated amortization	**(385)**	**(6,149)**	**(6,534)**
Net book amount	**2,668**	**7,292**	**9,960**

Amortization charge of RMB2,498,000 (2004: RMB2,067,000) is included in administrative expenses.

(Expressed in RMB'000 unless otherwise stated)

15 Deposit paid for land use right

During the year ended 31 December 2005, the Group paid deposit amounting to RMB10,002,000 for acquisition of a land use right in Beijing, the PRC. As at 31 December 2005, the Group was still in the process of obtaining the relevant land use right certificate.

16 Inventories

	2005	2004
Raw materials	1,934	21,884
Work in progress	3,730	707
Finished goods	299,180	305,963
	304,844	328,554
Less: Provision for write-down to net realizable value	(14,227)	(10,228)
	290,617	318,326

17 Investment in subsidiaries

	Company	
	2005	2004
Investment in unlisted shares, at cost	79,568	79,568
Loan to a subsidiary	155,088	–
	234,656	79,568

Balance due from a subsidiary is unsecured, non-interest bearing and has no fixed terms of repayment.

17 Investment in subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31 December 2005:

Name	Place of operation & incorporation and date of incorporation	Issued share/paid up capital	Equity interest held by the Company	Principal activities
Directly held:–				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002	US$1,000	100%	Investment holding
Indirectly held:–				
Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司)	Hong Kong, 28 May 2004	HK$1	100%	Research and development
Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司)	Hong Kong, 19 March 2003	HK$100	100%	Provision of administrative services
李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.)	The PRC, 25 August 1997	US$8,000,000	100%	Sale of sports goods
北京李寧體育用品有限公司 (Beijing Li Ning Sports Goods., Ltd.)	The PRC, 4 November 1997	RMB66,670,000	100%	Sale of sports goods
上海狐步物流有限公司 (Shanghai Hubu Logistics Co., Ltd.)	The PRC, 15 July 2004	RMB3,000,000	100%	Provision of logistics, transportation and storage 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 technology information 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

(Expressed in RMB'000 unless otherwise stated)

17 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
上海悦奥體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003	RMB3,000,000	100%	Sale of sports goods
佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastics School Services Co., Ltd.)	The PRC, 31 October 1996	RMB1,000,000	100%	Property management
廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.), formerly known as 廣東健力寶運動服裝有限公司 (Guangdong Sports Jianlibao Apparel Co., Ltd.)	The PRC, 13 December 2001	RMB8,240,000	80%	Product manufacturing
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 August 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

17 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
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
杭州一動體育用品銷售有限公司(Hangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 5 August 1999	RMB3,000,000	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
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

(Expressed in RMB'000 unless otherwise stated)

17 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
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

18 Interest in a jointly controlled entity

On 30 June 2005, the Group signed an agreement with Aigle International S.A., a company incorporated in France, whereby the companies agreed to the setting up of a jointly controlled entity in which the Group and Aigle International S.A. both have a 50% interest. Such jointly controlled entity, namely, Li-Ning Aigle Ventures Limited was thereafter established as a company incorporated in Hong Kong. Li-Ning Aigle Ventures Limited is an investment holding company. Its wholly owned subsidiary established in the PRC in January 2006 is principally engaged in manufacturing, marketing and distribution of AIGLE brand apparel and foot wear products. As at and for the year ended 31 December 2005, the Group's share of the assets and liabilities and operating results of the jointly controlled entity are included in the consolidated balance sheet and income statement as follows:

Current assets	5
Less: current liabilities	(63)
Net assets	(58)
Administrative expenses	(63)

As at 31 December 2005, the Group did not have any contingent liabilities in respect of its interest in the jointly controlled entity. In addition, as at 31 December 2005, the jointly controlled entity did not have any contingent liabilities.

19 Accounts and notes receivable

	2005	2004
Accounts and notes receivable	**376,942**	227,594
Less: provision for impairment of receivables	**(3,716)**	(10,020)
	373,226	217,574

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

	2005	2004
0 – 30 days	**226,956**	154,318
31 – 60 days	**67,105**	34,946
61 – 90 days	**44,661**	13,847
91 – 180 days	**34,504**	12,942
181 – 365 days	**637**	3,705
Over 365 days	**3,079**	7,836
	376,942	227,594

As at 31 December 2005, the largest five customers accounted for 29% of total accounts receivable balance (2004: 17%).

20 Other receivables and prepayments

	Group		Company	
	2005	2004	2005	2004
Advances to suppliers	**1,856**	24,905	**–**	–
Rental and other deposits	**17,131**	21,589	**–**	–
Prepaid rental	**18,165**	14,924	**–**	–
Others	**30,672**	20,006	**3,713**	2,550
	67,824	81,424	**3,713**	2,550

(Expressed in RMB'000 unless otherwise stated)

21 Cash and bank deposits

As at 31 December 2005, the Group had the following cash and bank deposits held with banks in the PRC (including Hong Kong Special Administrative Region):

	Group		Company	
	2005	2004	**2005**	2004
Cash at banks and in hand	**378,368**	322,568	**8,837**	153,137
Fixed deposits held at banks with maturity of more than three months	**353,161**	372,508	**345,284**	372,508
Pledged bank deposits	**–**	66,212	**–**	66,212
	731,529	761,288	**354,121**	591,857

The effective interest rate on the fixed deposits was 3.8% (2004: 2.0%). These deposits have an average maturity of 83 days (2004: 258 days).

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

	Group		Company	
	2005	2004	**2005**	2004
Denominated in Renminbi	**360,446**	162,207	**–**	–
Denominated in Hong Kong Dollars	**258,157**	328,333	**247,440**	326,817
Denominated in United States Dollars	**112,926**	270,748	**106,681**	265,040
	731,529	761,288	**354,121**	591,857

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. Also, the exchange rate is determined by the government of the PRC.

22 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:

	2005	2004
0 – 30 days	**205,666**	189,984
31 – 60 days	**4,645**	66,855
61 – 90 days	**2,410**	2,695
91 – 180 days	**312**	873
181 – 365 days	**829**	341
Over 365 days	**300**	249
	214,162	260,997

23 Other payables and accruals

	Group		Company	
	2005	2004	2005	2004
Accrued expenses	**49,668**	14,244	**2,262**	1,662
Advances from customers	**8,777**	23,534	**–**	–
Wages payable	**36,633**	35,382	**–**	–
Welfare payable	**23,310**	29,578	**–**	–
VAT and other taxes payable	**16,670**	10,906	**–**	–
Due to a related company	**–**	1,840	**–**	–
Other payables	**26,138**	22,618	**1,202**	7,970
	161,196	138,102	**3,464**	9,632

24 Short-term borrowings

	2005	2004
Bank loan denominated in RMB		
– secured	**–**	20,000
– cross guaranteed by a group company	**–**	20,000
	–	40,000

The weighted average effective annual interest rate of the borrowings was 3.45% for the year ended 31 December 2005 (2004: 4.57%).

25 Share capital

	Number of shares (Thousands)	Approximate amount HK$'000
Authorized at HK$0.10 each		
As at 31 December 2004 and 2005	10,000,000	1,000,000
Issued and fully paid		
Issued nil paid on incorporation, and subsequently credited as fully paid	0.1	–
Issued and credited as fully paid as consideration for acquisition of the share capital of RealSports	749,999.9	75,000
New issue through placing and public offer	273,038	27,304
As at 31 December 2004	1,023,038	102,304
Proceeds from shares issued pursuant to share option scheme (note a)	3,129	313
As at 31 December 2005	1,026,167	102,617
Equivalent to RMB'000		108,889

Note:

(a) During the year ended 31 December 2005, the Company issued 3,129,000 shares of HK$0.10 each to employees of the Group at issued price of HK$1.8275 per share pursuant to the Company's Pre-IPO Share Option scheme. Refer to Note 27 for details.

26 Reserves

Group

	Share Premium	Capital reserves (a)	Statutory reserve fund (b)	Statutory staff welfare fund (b)	Retained profits	Other reserves	Total
As at 1 January 2004	–	85,634	42,376	17,334	164,120	–	309,464
Share premium on placing and public offer	564,323	–	–	–	–	–	564,323
Profit for the year	–	–	–	–	122,414	–	122,414
Share options granted for services provided	–	–	–	–	–	11,025	11,025
Appropriations to statutory reserves	–	–	5,027	92	(5,119)	–	–
2003 dividends paid	–	–	–	–	(65,772)	–	(65,772)
Special distribution declared	–	(40,000)	–	–	–	–	(40,000)
As at 31 December 2004	564,323	45,634	47,403	17,426	215,643	11,025	901,454

	Share Premium	Capital reserves (a)	Statutory reserve fund (b)	Statutory staff welfare fund (b)	Retained profits	Other reserves	Total
As at 1 January 2005, as previously reported	564,323	45,634	47,403	17,426	226,668	–	901,454
Share options granted for services provided (Note 2)	–	–	–	–	(11,025)	11,025	–
As at 1 January 2005, as restated	564,323	45,634	47,403	17,426	215,643	11,025	901,454
Profit for the year	–	–	–	–	186,800	–	186,800
Share options granted for services provided	–	–	–	–	–	27,557	27,557
Issue of new shares pursuant to exercise of share options	5,626	–	–	–	–	–	5,626
Transfer of fair value of share options exercised to share premium	15,834	–	–	–	–	(15,834)	–
Appropriations to statutory reserves	–	–	22,368	3,479	(25,847)	–	–
Dividends paid	(69,402)	–	–	–	–	–	(69,402)
As at 31 December 2005	516,381	45,634	69,771	20,905	376,596	22,748	1,052,035

(Expressed in RMB'000 unless otherwise stated)

26 Reserves (Continued)

Company

	Share premium	Accumulated losses	Other reserves	Total
As at 26 February 2004 (date of incorporation)	–	–	–	–
Shares issued at premium on placing and public offer	564,323	–	–	564,323
Share options granted for services provided	–	–	11,025	11,025
Loss for the period from 26 February 2004 (date of incorporation) to 31 December 2004	–	(19,568)	–	(19,568)
As at 31 December 2004	564,323	(19,568)	11,025	555,780

	Share premium	Accumulated losses	Other reserves	Total
As at 1 January 2005, as previously reported	564,323	(8,543)	–	555,780
Share options granted for services provided	–	(11,025)	11,025	–
As at 1 January 2005, as restated	564,323	(19,568)	11,025	555,780
Loss for the year	–	(39,424)	–	(39,424)
Share options granted for services provided	–	–	27,557	27,557
Issue of new shares pursuant to exercise of share options	5,626	–	–	5,626
Transfer of fair value of share options exercised to share premium	15,834	–	(15,834)	–
Dividends paid	(69,402)	–	–	(69,402)
As at 31 December 2005	516,381	(58,992)	22,748	480,137

(a) Capital reserves

Capital reserves comprised the aggregate of contribution by the then shareholders of the Group and the merger reserve arose during the reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited (Note 1).

26 Reserves (Continued)

(b) Statutory reserves

Under the relevant PRC laws and regulations, the Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate certain percentage of their respective net profit to two statutory funds – the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

(i) Statutory reserve fund

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilized, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund be maintained at a minimum of 25% of the companies' registered capital.

(ii) Statutory staff welfare fund

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the PRC Companies.

(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 2005, the Company had reserves available for distribution amounting to approximately RMB480,137,000 (2004: RMB555,780,000).

27 Share option schemes

(a) Share Purchase Scheme

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

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

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

27 Share option schemes (Continued)

(a) Share Purchase Scheme (Continued)

Currently granted options vest gradually after the individuals complete certain periods of service in the Group's companies ranging from 6 to 30 months.

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

	2005 Weighted average exercise price (per share) HK$	**2005 Outstanding options (Thousands)**	2004 Weighted average exercise price (per share) HK$	2004 Outstanding options (Thousands)
As at 1 January	**0.69**	**24,630**	–	–
Granted	**3.19**	**4,603**	0.69	25,230
Exercised	**2.07**	**(8,863)**	–	–
Lapsed	**–**	**–**	0.86	(600)
As at 31 December	**0.65**	**20,370**	0.69	24,630
Exercisable as at 31 December	**0.68**	**16,042**	0.71	11,340

Share options outstanding as at the end of the years have the following expiry dates and weighted-average exercise prices:

Expiry date	**2005 Weighted average exercise price (per share) HK$**	**2005 Share options (Thousands)**	2004 Weighted average exercise price (per share) HK$	2004 Share options (Thousands)
8 June 2010	**0.64**	**18,967**	0.69	24,630
11 November 2011	**0.86**	**1,403**	–	–
		20,370		24,630

27 Share option schemes (Continued)

(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO 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. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. HK$1 is payable by the grantee who accepts the grant of an option.

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 of 12 to 36 months starting from the date of grant (5 June 2004).

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

	2005 Exercise price (per share) HK$	**2005 Outstanding options (Thousands)**	2004 Exercise price (per share) HK$	2004 Outstanding options (Thousands)
As at 1 January	**1.8275**	**15,641**	–	–
Granted	**–**	**–**	1.8275	16,219
Exercised	**1.8275**	**(3,129)**	–	–
Lapsed	**1.8275**	**(1,000)**	1.8275	(578)
As at 31 December	**1.8275**	**11,512**	1.8275	15,641
Exercisable as at 31 December	**1.8275**	**2,501**	–	–

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

Expiry date	**2005 Exercise price (per share) HK$**	**2005 Share options (Thousands)**	2004 Exercise price (per share) HK$	2004 Share options (Thousands)
5 June 2010	**1.8275**	**11,512**	1.8275	15,641

27 Share option schemes (Continued)

(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 Share Option Scheme 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 contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge in the industry and other relevant factors.

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.

27 Share option schemes (Continued)

(c) Share Option Scheme (Continued)

No Post-IPO Options were granted during the year ended 31 December 2004. Movement in the number of Post-IPO Options outstanding and their related exercise price during the year ended 31 December 2005 are as follows:

	2005	
	Exercise price (per share) HK$	Outstanding options (Thousands)
Granted	3.685	15,921
Lapsed	3.685	(416)
As at 31 December	3.685	15,505
Exercisable as at 31 December	–	–

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

	2005	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)
4 July 2011	3.685	15,505

(d) Fair value of share options

The fair value of the options granted under the above three schemes during the years ended 31 December 2004 and 2005 determined using Black-Scholes valuation model were as follows:

	2005	2004
Alpha Talent Option	10,190	20,563
Pre-IPO Option	N/A	12,435
Post-IPO Option	17,368	N/A

The Group has taken advantage of the transitional provisions of IFRS 2 to apply the standard to share options granted after 7 November 2002 and not yet vested at 1 January 2005. Share options granted and vested prior to 1 January 2005 with fair value totalling RMB19,312,000 under Alpha Talent Option were not included in the calculation of the schemes' fair value.

(Expressed in RMB'000 unless otherwise stated)

27 Share option schemes (Continued)

(d) Fair value of share options (Continued)

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

	2005	2004
Alpha Talent Option		
Weighted average share price (HK$)	**4.68**	2.26
Weighted average exercise price (HK$)	**3.19**	0.69
Expected volatility	**39.2%**	40.6%
Expected option life (years)	**3.11**	2.39
Weighted average annual risk free interest rate	**4.4%**	2.4%
Expected dividend yield	**2.0%**	2.0%
Pre-IPO Option		
Share price (HK$)	**N/A**	2.35
Exercise price (HK$)	**N/A**	1.8275
Expected volatility	**N/A**	41.1%
Expected option life (years)	**N/A**	1.97
Weighted average annual risk free interest rate	**N/A**	2.4%
Expected dividend yield	**N/A**	2.0%
Post-IPO Option		
Share price (HK$)	**3.65**	N/A
Exercise price (HK$)	**3.685**	N/A
Expected volatility	**39.2%**	N/A
Expected option life (years)	**4.0**	N/A
Weighted average annual risk free interest rate	**3.3%**	N/A
Expected dividend yield	**2.0%**	N/A

The expected volatility is estimated based on historical stock prices of comparable companies listed on The Stock Exchange of Hong Kong Limited and/or the daily trading prices of the Company's shares since its date of listing (28 June 2004).

On 30 August 2005, the Group reduced the vesting period and exercise period of certain outstanding options under Alpha Talent Option and Pre-IPO Option. Exercisable dates of certain share options have been advanced to 1 September 2005 from 28 December 2005, 28 June 2006 and 28 June 2007. Expiry dates have been advanced to 31 December 2005 from 8 June 2010 and 5 June 2010. The incremental fair value of RMB222,000 has been expensed in the income statement for the year ended 31 December 2005. The Group used the inputs noted above to measure the fair value of the original and revised share option schemes immediately before and after the modification.

28 Cash flow statement

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

	2005	2004
Profit before taxation	**273,451**	181,239
Adjustments for:		
Depreciation	**22,310**	18,147
Amortisation	**2,628**	2,274
Write-back of impairment charge of accounts receivable	**(2,211)**	(7,030)
Write-down/(reversal of write-down) of inventories to net realisable value	**5,318**	(5,201)
Gain on disposal of a subsidiary	**(3,091)**	–
Share options charged to compensation expense	**27,557**	11,025
Loss on disposals of property, plant and equipment, land use right and intangible assets	**884**	4,908
Interest income	**(14,026)**	(3,715)
Interest expenses	**1,102**	4,369
Net foreign currency exchange loss/(gain)	**10,970**	(1,475)
Operating profit before working capital changes	**324,892**	204,541
Decrease/(increase) in inventories	**11,126**	(16,886)
Increase in accounts and notes receivable	**(176,441)**	(90,485)
Decrease/(increase) in other receivables and prepayments	**7,642**	(41,596)
(Decrease)/increase in trade payables	**(19,951)**	89,416
Increase in other payables and accruals	**59,294**	46,494
Cash inflow generated from operations	**206,562**	191,484

(Expressed in RMB'000 unless otherwise stated)

28 Cash flow statement (Continued)

(b) Disposal of a subsidiary

On 31 August 2005, the Group disposed of its 80% equity interest in Beijing Dong Xiang to Shanghai Tai Tan, a company controlled by Mr. Chen Yi Hong, a former director, for cash consideration of RMB8,614,000.

Major assets and liabilities of Beijing Dong Xiang as at 31 August 2005 are as follows:

Property, plant and equipment	8,256
Intangible assets	278
Inventories	11,265
Accounts receivable	23,000
Other receivables and prepayments	6,937
Cash at banks and in hand	23,351
	73,087
Trade payables	(26,884)
Due to a subsidiary of the Group	(36,200)
Taxation	(3,099)
	(66,183)
Net assets	6,904
The Group's share (80%)	5,523
Consideration	8,614
Gain on disposal	3,091

Analysis of cash outflow from disposal:

Consideration in cash	8,614
Less: Cash at banks and in hand disposed	(23,351)
Net cash outflow	(14,737)

29 Commitments

(a) Capital commitments

As at 31 December 2005, the Group has authorised but not contracted for capital commitments of RMB98,000,000 for construction of a headquarter building in the PRC.

(b) Operating lease commitments – where a group company is the lessee:

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

	2005	2004
Not later than 1 year	**51,776**	66,934
Later than 1 year and not later than 5 years	**91,893**	109,829
Later than 5 years	**2,880**	–
	146,549	176,763

(Expressed in RMB'000 unless otherwise stated)

30 Significant related party transactions

(a) The Group has following significant related party transactions:

	2005	2004
Sales of goods to:		
– 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by the family members of Mr. Chen Yi Hong, a former director	**9,663**	15,509
– 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Commercial Company Limited), a company controlled by the family members of Mr. Chen Yi Hong, a former director	**345**	911
Sponsorship fee paid to:		
– 北京一動體育發展有限公司 (Beijing Edo Sports Development Company Limited), a company controlled by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a company controlled by the family members of Mr. Li Ning, chairman of the Company	**3,250**	2,640
Consideration received from disposal of a subsidiary to:		
– 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a company controlled by Mr. Chen Yi Hong, a former director (Note 5 (b))	**8,614**	–

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

30 Significant related party transactions (Continued)

(b) Significant balances with related parties are as follows:

	2005	2004
Other payables		
– 上海雷德體育發展有限公司 (Shanghai Lei De Sporting Goods Co., Ltd.), being a minority shareholder of a subsidiary, controlled by Mr. Chen Yi Hong, a former director, and his family members	–	1,840
Accounts receivable		
– 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.)	–	1,738

The above balances are interest free, unsecured and have no fixed term of repayment.

31 Events after the balance sheet date

On 3 January 2006, the Company granted to certain employees 360,000 share options at the subscription price of HK$5.50 per share pursuant to the Company's Post-IPO Option.

32 Approval of the financial statements

The financial statements were approved by the Board of Directors on 22 March 2006.