





# Brilliant Performance

# Chairman's Statement



**Mr. LI Ning,**  
*Chairman*

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## **Dear Shareholders,**

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

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

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

## IMPRESSIVE FINANCIAL PERFORMANCE

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

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

## ACCELERATED BRAND BUILDING TO EMBRACE 2008 BEIJING OLYMPIC GAMES

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

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

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

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

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

## REINFORCEMENT OF MULTI-BRAND STRATEGY

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

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

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

## CONTINUAL ENHANCEMENT OF PRODUCT R&D CAPABILITIES

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

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

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

## THE FUTURE FOR LI-NING

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

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

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

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

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**LI Ning**  
*Chairman*

Hong Kong, 20 March 2007