

Report of the Directors

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

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

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

RESULTS AND DIVIDENDS

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

The Board has recommended the payment of a final dividend of RMB7.64 cents per Share in respect of the year ended 31 December 2006. The final dividend will be paid in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 11 May 2007, being the date of the annual general meeting on which the final dividend is proposed to the Shareholders for approval. Together with the interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per Share paid on 29 September 2006, the total dividend per Share for the year ended 31 December 2006 amounts to RMB11.44 cents.

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

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

BANK LOANS AND OTHER BORROWINGS

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

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

ORDINARY SHARES

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Li Ning

Mr. Zhang Zhi Yong

Mr. Tan Wee Seng (re-elected on 12 May 2006)

Non-executive Directors

Mr. Lim Meng Ann

Mr. Stuart Schonberger

Mr. Fong Ching, Eddy (re-elected on 12 May 2006 and resigned on 20 October 2006)

Independent non-executive Directors

Mr. Koo Fook Sun, Louis

Ms. Wang Ya Fei, Jane (re-elected on 12 May 2006)

Mr. Chan Chung Bun, Bunny

57 >

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTEREST IN CONTRACTS

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

PENSION SCHEMES

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

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

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

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

< 58

MANAGEMENT CONTRACTS

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

SHARE SCHEMES

Share Purchase Scheme

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

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

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

Pre-IPO Share Option Scheme

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

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

Notes:

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

Post-IPO Share Option Scheme

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

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

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

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

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

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

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

Report of the Directors (Continued)

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

61 >

Notes:

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

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

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

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

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

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

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

< 62



Restricted Share Award Scheme

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

2. Mr. Zhang Zhi Yong is interested in 3,000,000 Shares and is also taken to be beneficially interested as a grantee of options to purchase 6,000,000 Shares at an exercise price of HK\$0.43 per Share under the Share Purchase Scheme; options to subscribe for 1,267,000 Shares at an exercise price of HK\$1.8275 per Share under the Pre-IPO Share Option Scheme; and options to subscribe for 782,000 Shares at an exercise price of HK\$3.685 per Share and 312,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme.
3. Mr. Tan Wee Seng is taken to be interested as a grantee of options to subscribe for 677,000 Shares at an exercise price of HK\$1.8275 per Share under the Pre-IPO Share Option Scheme; and options to subscribe for 728,000 Shares at an exercise price of HK\$3.685 per Share and 172,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme.
4. The respective Director is taken to be interested as a grantee of options to subscribe for 246,000 Shares at an exercise price of HK\$3.685 per Share and 90,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme.
5. The Director is taken to be interested as a grantee of options to subscribe for 90,000 Shares at an exercise price of HK\$8.83 per Share under the Post-IPO Share Option Scheme.
6. No Shares were granted to the Directors under the Restricted Share Award Scheme for the year ended 31 December 2006.

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

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

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

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

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

Notes:

1. See note 1 under "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".
2. Mr. Li Chun is taken to be interested in an aggregate of 353,374,000 Shares held by Victory Mind and Dragon City, respectively, as follows:
 - (a) 203,374,000 Shares are held by Victory Mind in which 37.894% is owned by Mr. Li Chun and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Mr. Li Chun is taken to be interested in the 203,374,000 Shares held by Victory Mind; and
 - (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Ginkgo Trust. Both of the Palm Trust and the Ginkgo Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Chun and Mr. Li Ning. Mr. Li Chun is the settler of the Ginkgo Trust and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City.
3. 103,055,500 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated).

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

< 66



CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
- (3) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

67 >

- (1) have been approved by the Board of Directors of the Company;
- (2) are in accordance with the pricing policies of the Group;
- (3) have been entered into in accordance with the terms and conditions under the relevant agreements governing the transactions; and
- (4) have not exceeded the relevant annual cap as disclosed in the Listing Prospectus.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

AUDITORS

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

By order of the Board

LI Ning

Chairman

Hong Kong, 20 March 2007

