1. General information

Li Ning Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel and accessories in the People's Republic of China (the "PRC").

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements were authorised for issue by the Board of Directors on 20 March 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) *Standards, amendments and interpretations effective in 2006 but not relevant to the Group's situations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's situations:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any significant impact on the classification and valuation of the Group's financial instruments;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any significant impact on the consolidated financial statements;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it does not expect there will be any significant impact on the consolidated financial statements; and
- IFRIC 11, IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The interpretation and amendment do not have any significant impact on the consolidated financial statements.

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations;
- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations; and
- IFRIC 12, Service Concession Arrangements. IFRIC 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group does not participate in service concession arrangements, IFRIC 12 is not relevant to the Group's operations.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation

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

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Joint ventures*

The Group's interests in jointly controlled entities ("JCE") are accounted for by proportionate consolidation. The Group combines its share of the JCE's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the JCE that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until the Group resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investments in JCE are stated at cost less provision for impairment losses. The assets of the JCE are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the functional and the presentation currency of the Company.

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. Income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. All resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment (excluding construction-in-progress) is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the cost less impairment losses of each asset to their residual values over their estimated useful lives as follows:

Buildings	20 – 40 years
Leasehold improvement	2 years or over the lease term, whichever is a shorter period
Mould	2 years
Machinery	10 –18 years
Motor vehicles and office equipment	3 – 12 years

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

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

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

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Construction-in-progress represents buildings, plant and/or machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.7 Intangible assets

(a) *License rights*

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised present values of the fixed minimum periodic payments to be made in the subsequent years in respect of the acquisition of the license right.

License rights are amortised using the straight-line method to allocate the cost of licenses over their estimated useful lives.

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(c) *Trademarks*

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

2.8 Impairment of investments in subsidiaries, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

2. Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

As at 31 December 2005 and 2006, the Group's financial assets comprise loans and receivables and held-to-maturity investments (fixed deposits held at banks).

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included within accounts and notes receivables and other receivables in the balance sheet.

(b) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available for sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises costs of merchandise, design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Accounts and notes receivable and other receivables

Accounts and notes receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and notes receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2. Summary of significant accounting policies (Continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 License fees payable

License fees payable are initially recorded at the fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years. They are subsequently stated at amortised cost using the effective interest method less amounts paid.

2.16 Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Director and employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC, 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 Group has no other post-employment obligations under the employment contracts.

2. Summary of significant accounting policies (Continued)

2.17 Director and employee benefits (Continued)

(b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans. These comprise share option schemes and a share award scheme. The fair value of the employee services received in exchange for the share-based compensation is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options and shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) *Other benefits*

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

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

2.20 Operating leases (as the lessee for 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.

2. Summary of significant accounting policies (Continued)

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement as other gain on a straight-line basis over the expected lives of the related assets.

2.22 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the employees' share award scheme, is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders in case of final dividend and the Company's directors in case of interim dividend.

2.23 Comparatives

Certain staff costs amounting to RMB26,356,000 incurred during the year ended 31 December 2005 in aggregate have been reclassified from distribution costs and administrative expenses to cost of sales in order to conform with the current year's presentation.

3. Financial risk management

3.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk.

Risk management is carried out by core management team of the Group under policies approved by the board of directors.

(a) Foreign exchange risk

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

Certain of the Group's cash and bank deposits are denominated in Hong Kong Dollars (HK$) or United States Dollars (US$) (Note 14). In addition, the Company is required to pay dividends in HK$ when dividends are declared.

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

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates, and the Group has no significant interest-bearing assets or liability other than cash deposits with banks. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk

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

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate credit lines to ensure sufficient and flexible funding is available to the Group.

3.2 Fair value estimation

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables and other payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses the estimations at each balance sheet date.

(b) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Turnover and segment information

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

Primary reporting format — business segment

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

Secondary reporting format — geographical segment

The Group's assets, liabilities, capital expenditure and operations during the two years ended 31 December 2006 were primarily located in the PRC. No geographical segments analysis is presented as less than 5% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

6. Property, plant and equipment

	Buildings '000	Leasehold improvement '000	Mould '000	Machinery '000	Motor vehicles and office equipment '000	Construction-in-progress '000	Total '000
As at 1 January 2005							
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
Year ended 31 December 2006							
Opening net book amount	**39,926**	**12,673**	**—**	**7,647**	**30,504**	**5,046**	**95,796**
Additions	**—**	**11,969**	**20,013**	**7,151**	**16,838**	**36,036**	**92,007**
Disposals	**—**	**(1,438)**	**—**	**(246)**	**(1,420)**	**—**	**(3,104)**
Reclassification	**—**	**—**	**—**	**—**	**5,046**	**(5,046)**	**—**
Disposal of a subsidiary	**—**	**(204)**	**—**	**—**	**(301)**	**—**	**(505)**
Depreciation charge	**(2,429)**	**(9,789)**	**(3,080)**	**(1,695)**	**(10,314)**	**—**	**(27,307)**
Closing net book amount	**37,497**	**13,211**	**16,933**	**12,857**	**40,353**	**36,036**	**156,887**
As at 31 December 2006							
Cost	**66,957**	**33,665**	**20,013**	**19,925**	**68,335**	**36,036**	**244,931**
Accumulated depreciation	**(29,460)**	**(20,454)**	**(3,080)**	**(7,068)**	**(27,982)**	**—**	**(88,044)**
Net book amount	**37,497**	**13,211**	**16,933**	**12,857**	**40,353**	**36,036**	**156,887**

6. Property, plant and equipment (Continued)

Construction-in-progress with net book value of RMB36,036,000 (2005: nil) as at 31 December 2006 is located in the PRC and are built on land with respect to which the Group is in the process of applying for the formal legal title to its land use right.

Depreciation expenses of RMB10,498,000 (2005: RMB11,448,000) has been charged in administrative expenses, RMB11,720,000 (2005: RMB8,552,000) in distribution costs, RMB5,089,000 (2005: RMB2,310,000) in cost of inventories.

7. Land use rights

	'000
As at 1 January 2005	
Cost	5,390
Accumulated amortisation	(1,333)
Net book amount	4,057
Year ended 31 December 2005	
Opening net book amount	4,057
Disposal	(70)
Amortisation charge	(130)
Closing net book amount	3,857
As at 31 December 2005	
Cost	5,320
Accumulated amortisation	(1,463)
Net book amount	3,857
Year ended 31 December 2006	
Opening net book amount	**3,857**
Addition	**22,002**
Amortisation charge	**(276)**
Closing net book amount	**25,583**
As at 31 December 2006	
Cost	**27,322**
Accumulated amortisation	**(1,739)**
Net book amount	**25,583**

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

The Group is in the process of applying for formal legal title to land use right with net book value of RMB21,855,000 (2005: nil) as at 31 December 2006.

Amortisation charge of RMB276,000 (2005: RMB130,000) is included in administrative expenses.

8. Intangible assets

	Trademarks	Computer Software	License rights	Total
	'000	'000	'000	'000
As at 1 January 2005				
Cost	1,526	12,221	—	13,747
Accumulated amortisation	(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)
Amortisation charge	(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 amortisation	(385)	(6,149)	—	(6,534)
Net book amount	2,668	7,292	—	9,960
Year ended 31 December 2006				
Opening net book amount	**2,668**	**7,292**	**—**	**9,960**
Additions	**—**	**7,549**	**73,086**	**80,635**
Disposals	**(359)**	**(379)**	**—**	**(738)**
Amortisation charge	**(240)**	**(2,576)**	**(5,490)**	**(8,306)**
Closing net book amount	**2,069**	**11,886**	**67,596**	**81,551**
As at 31 December 2006				
Cost	**2,374**	**20,295**	**73,086**	**95,755**
Accumulated amortisation	**(305)**	**(8,409)**	**(5,490)**	**(14,204)**
Net book amount	**2,069**	**11,886**	**67,596**	**81,551**

Amortisation charge of RMB2,816,000 (2005: RMB2,498,000) has been charged to administrative expenses and RMB5,490,000 (2005: nil) to cost of sales.

9. Inventories

	2006	2005
	'000	'000
Raw materials	**4,937**	1,934
Work in progress	**3,200**	3,730
Finished goods	**369,276**	299,180
	377,413	304,844
Less: Provision for write-down to net realisable value	**(26,869)**	(14,227)
	350,544	290,617

10. Investment in subsidiaries

	Company 2006 '000	2005 '000
Investment in unlisted shares, at cost	**79,568**	79,568
Loan to subsidiaries	**305,339**	155,088
Contribution to the Restricted Share Award Scheme Trust	**6,977**	—
	391,884	234,656

Loan to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The following is a list of the principal subsidiaries as at 31 December 2006:

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 Sport Goods Co., Ltd.)	The PRC, 4 November 1997	RMB66,670,000	100%	Sale of sports goods
上海狐步物流諮詢服務有限公司 (Shanghai Hubu Logistics Consulting Services Co., Ltd.)	The PRC, 15 July 2004	RMB3,000,000	100%	Provision of logistics consulting service
上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.)	The PRC, 20 April 2000	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001	RMB3,000,000	100%	Product design, research and development

10. 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
Indirectly held (Continued):				
上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003	RMB3,000,000	100%	Sale of sports goods
佛山李寧體操學校服務有限公司 (Foshan Li Ning 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.)	The PRC, 13 December 2001	RMB8,240,000	80%	Manufacturing of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999	RMB3,000,000	100%	Sale of sports goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003	RMB1,000,000	100%	Sale of sports goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997	RMB5,000,000	100%	Sale of sports goods
石家莊一動體育用品銷售有限公司 (Shijiazhuang Edosports Goods Sales Co., Ltd.)	The PRC, 12 November 1999	RMB1,000,000	100%	Sale of sports goods

10. 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
Indirectly held (Continued):				
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
新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.)	The PRC, 4 Feburary 2005	RMB1,000,000	100%	Sale of sports goods
長沙一動體用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.)	The PRC, 26 August 1998	RMB1,000,000	100%	Sale of sports goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.)	The PRC, 29 July 1998	RMB1,500,000	100%	Sale of sports goods
西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.)	The PRC, 23 January 2006	RMB1,000,000	100%	Sale of sports goods
大連一動體育用品銷售有限公司 (Dalian Edosports Goods Sales Co., Ltd.)	The PRC, 10 April 2006	RMB1,000,000	100%	Sale of sports goods

11. Interest in jointly controlled entities

The Group has a 50% equity interest in Li-Ning Aigle Ventures Limited ("Li-Ning Aigle Ventures") which is a company jointly controlled by the Group and Aigle International S.A., a company incorporated in France. Li-Ning Aigle Ventures and its subsidiary are principally engaged in the manufacturing, marketing and distribution of AIGLE branded apparel and footwear products in the PRC.

11. Interest in jointly controlled entities (Continued)

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated turnover and results of Li-Ning Aigle Ventures and its subsidiary as at and for the year ended 31 December 2006, which have been included in the consolidated balance sheet and income statement.

	As at 31 December	
	2006	2005
	'000	'000
Assets		
Non-current assets		
— Property, plant and equipment	**937**	—
— Intangible assets	**46**	—
Current assets		
— Inventories	**12,571**	—
— Accounts and other receivables	**3,314**	—
— Cash and cash equivalents	**16,934**	5
Total assets	**33,802**	5
Liabilities		
Non-current liabilities		
— Borrowings from shareholders	**12,559**	—
Current liabilities		
— Trade and other payables	**5,406**	63
Total liabilities	**17,965**	63
Net assets/(liabilities)	**15,837**	(58)

	Year ended 31 December	
	2006	2005
	'000	'000
Turnover	**5,469**	—
Cost of sales	**(3,012)**	—
Gross profit	**2,457**	—
Distribution costs	**(9,446)**	—
Administrative expenses	**(2,253)**	(63)
Finance cost — net	**(14)**	
Net loss	**(9,256)**	(63)

As at 31 December 2006 and 2005, the Group did not have any contingent liabilities in respect of its interest in jointly controlled entities.

12. Accounts and notes receivable

	2006 '000	2005 '000
Accounts receivable	**586,635**	376,542
Notes receivable	**1,228**	400
Less: provision for impairment of receivables	**(8,720)**	(3,716)
	579,143	373,226

Customers are normally granted credit terms within the period of 60 to 90 days. Ageing analysis of accounts and notes receivable at the respective balance sheet dates is as follows:

	2006 '000	2005 '000
0 – 30 days	**355,062**	226,956
31 – 60 days	**75,361**	67,105
61 – 90 days	**77,848**	44,661
91 – 180 days	**70,872**	34,504
181 – 365 days	**46**	637
Over 365 days	**8,674**	3,079
	587,863	376,942

13. Other receivables and prepayments

	Group		Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Advances to suppliers	**10,182**	1,856	**—**	—
Prepayment for advertisement	**29,478**	14,740	**—**	—
Rental and other deposits	**19,613**	17,131	**—**	—
Prepaid rental	**21,686**	18,165	**—**	—
Others	**28,992**	15,932	**148**	3,713
	109,951	67,824	**148**	3,713

14. Cash, cash equivalents and bank deposits

As at 31 December 2006, the Group had the following cash, cash equivalents and bank deposits held with banks in the PRC (including Hong Kong Special Administrative Region):

	Group		Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Cash at banks and in hand	**736,123**	378,368	**8,327**	8,837
Short-term bank deposits	**102,744**	—	**98,915**	—
Fixed deposits held at banks with maturity of more than three months	**10,304**	353,161	**10,304**	345,284
	849,171	731,529	**117,546**	354,121

The effective interest rate on the fixed deposits was 5.2% (2005: 3.8%). These deposits have an average maturity of 134 days (2005: 83 days).

14. Cash, cash equivalents and bank deposits (Continued)

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

	Group		Company	
	2006 '000	2005 '000	**2006 '000**	2005 '000
Denominated in RMB	**703,253**	360,446	**—**	—
Denominated in HK Dollars	**129,570**	258,157	**106,954**	247,440
Denominated in US Dollars	**16,348**	112,926	**10,592**	106,681
	849,171	731,529	**117,546**	354,121

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.

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme

	Number of shares (thousands)	Approximate amount HK$'000
Authorised at HK$0.10 each		
As at 31 December 2005 and 2006	10,000,000	1,000,000

Issued and fully paid

	Number of shares of HK$0.10 each (thousands)	Ordinary shares '000	Share premium '000	Shares held for Restricted Share Award Scheme '000	Total '000
As at 1 January 2005	1,023,038	108,563	564,323	—	672,886
Proceeds from shares issued pursuant to share option schemes (Note a)	3,129	326	5,626	—	5,952
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	1,026,167	108,889	516,381	—	625,270
As at 1 January 2006	**1,026,167**	**108,889**	**516,381**	**—**	**625,270**
Proceeds from shares issued pursuant to share option schemes (Note a)	**6,030**	**614**	**15,155**	**—**	**15,769**
Transfer of fair value of share options exercised to share premium	**—**	**—**	**19,705**	**—**	**19,705**
Shares purchased for Restricted Share Award Scheme (Note b)	**(709)**	**—**	**—**	**(6,367)**	**(6,367)**
Dividends paid	**—**	**—**	**(88,330)**	**—**	**(88,330)**
As at 31 December 2006	**1,031,488**	**109,503**	**462,911**	**(6,367)**	**566,047**

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme (Continued)

Notes:

(a) During the year ended 31 December 2006, the Company issued 6,030,000 shares (2005: 3,129,000 shares) of HK$0.10 each to directors and employees of the Group at weighted-average issued price of HK$2.5625 (2005: HK$1.8275) per share pursuant to the Company's share option schemes (Note 27).

(b) During the year ended 31 December 2006, the Li Ning Company Limited Restricted Share Award Scheme Trust, a trust established in Hong Kong purchased 709,000 (2005: nil) of the Company's shares. The total amount of RMB6,367,000 paid to acquire the shares was financed by the Company by way of contributions.

16. Reserves

Group

	Capital reserves (a) '000	Statutory reserve funds (b) '000	Statutory public welfare fund (b) '000	Share-based compensation reserve '000	Subtotal '000	Retained profits '000	Total '000
As at 1 January 2005	45,634	47,403	17,426	11,025	121,488	215,643	337,131
Profit for the year	—	—	—	—	—	186,800	186,800
Employee share option schemes for value of services provided	—	—	—	27,557	27,557	—	27,557
Transfer of fair value of the share options exercised to share premium	—	—	—	(15,834)	(15,834)	—	(15,834)
Appropriations to statutory reserves	—	22,368	3,479	—	25,847	(25,847)	—
As at 31 December 2005	45,634	69,771	20,905	22,748	159,058	376,596	535,654

	Capital reserves (a) '000	**Statutory reserve funds (b) '000**	**Statutory public welfare fund (b) '000**	**Share-based compensation reserve '000**	**Subtotal '000**	**Retained profits '000**	**Total '000**
As at 1 January 2006	**45,634**	**69,771**	**20,905**	**22,748**	**159,058**	**376,596**	**535,654**
Transfer of statutory public welfare fund (note(b)(ii))	**—**	**20,905**	**(20,905)**	**—**	**—**	**—**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**294,846**	**294,846**
Employee share option schemes for value of services provided	**—**	**—**	**—**	**22,648**	**22,648**	**—**	**22,648**
Transfer of fair value of the share options exercised to share premium	**—**	**—**	**—**	**(19,705)**	**(19,705)**	**—**	**(19,705)**
Appropriations to statutory reserves	**—**	**20,483**	**—**	**—**	**20,483**	**(20,483)**	**—**
As at 31 December 2006	**45,634**	**111,159**	**—**	**25,691**	**182,484**	**650,959**	**833,443**

16. Reserves (Continued)

Company

	Accumulated losses '000	Share-based compensation reserve '000	Total '000
As at 1 January 2005	(19,568)	11,025	(8,543)
Loss for the year	(39,424)	—	(39,424)
Employee share option schemes for value of services provided	—	27,557	27,557
Transfer of fair value of the share options exercised to share premium	—	(15,834)	(15,834)
As at 31 December 2005	(58,992)	22,748	(36,244)

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

(a) *Capital reserves*
Capital reserves comprised the aggregate of contribution by the then-shareholders of the Group and the merger reserve arising during the reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited during 2004.

(b) *Statutory reserves*
Under the relevant PRC laws and regulations, the Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate a portion of their net profit to statutory funds before profit distribution to investors.

(i) Statutory reserve funds
Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

PRC Companies incorporated under the "Company Law of the PRC" are required to allocate at least 10% of the companies' net profit to the Statutory Surplus Reserve until such fund reaches 50% of the companies' registered capital. The Statutory Surplus Reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" may appropriate a percentage of net profit to Reserve Fund after offsetting accumulated losses from prior years. The percentage of appropriation is determined by the board of directors of the companies.

16. Reserves (Continued)

Company (Continued)

(b) *Statutory reserves* (Continued)

(i) Statutory reserve funds (Continued)

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" are required to allocate at least 10% of the companies' net profit to the Reserve Fund until such fund reaches 50% of the companies' registered capital. The Reserve Fund, upon approval by relevant authorities, may be used to offset accumulated losses or to increase registered capital of the company.

(ii) Statutory public welfare fund

Until 31 December 2005, PRC Companies incorporated under the "Company Law of the PRC" were required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only use to provide welfare facilities and other collective benefits to the companies' employees.

Pursuant to the revised the "Company Law of the PRC" and regulations which are effective from 1 January 2006, relevant PRC Companies have ceased to provide for statutory public welfare fund from net profit. The balances of statutory public welfare fund as at 31 December 2005 have been transferred to relevant PRC Companies' Statutory Surplus Reserve.

(c) *Distributable reserves*

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its equity holders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2006, the Company had reserves available for distribution amounting to approximately RMB396,762,000 (2005: RMB480,137,000).

17. Trade payables

The normal credit period for trade payables generally ranges from 30 to 60 days. Ageing analysis of trade payables at the respective balance sheet dates is as follows:

	2006 **'000**	2005 '000
0 – 30 days	**310,120**	205,666
31 – 60 days	**102,647**	4,645
61 – 90 days	**7,653**	2,410
91 – 180 days	**3,015**	312
181 – 365 days	**346**	829
Over 365 days	**679**	300
	424,460	214,162

18. Other payables and accruals

	Group		Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Accrued expenses	**46,787**	49,668	**2,403**	2,262
Advances from customers	**14,782**	8,777	**—**	—
Wages payable	**44,842**	36,633	**—**	—
Welfare payable	**39,140**	37,048	**—**	—
VAT and other taxes payable	**34,231**	16,670	**—**	—
Payable for the land use right	**12,000**	—	**—**	—
Dividend payable	**60**	—	**60**	—
Others	**15,439**	12,400	**850**	1,202
	207,281	161,196	**3,313**	3,464

19. License fees payable

	2006	2005
	'000	'000
As at 1 January	**—**	—
Acquisition of license rights	**73,086**	—
Payment of license fees	**(2,340)**	—
Amortisation of discount	**2,064**	—
Adjustment for exchange difference	**(2,070)**	—
As at 31 December	**70,740**	—
Analysis of license fees payable		
Non-current, after the fifth year	**3,801**	—
Non-current, the second to fifth year	**55,953**	—
Current	**10,986**	—
	70,740	—

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

20. Deferred income tax assets

The movement in deferred income tax assets is as follows:

	Provision of assets	**Share options exercised**	**Total**
	'000	**'000**	**'000**
As at 1 January 2005 and 2006	**—**	**—**	**—**
Credited to the income statement	**4,492**	**7,963**	**12,455**
As at 31 December 2006	**4,492**	**7,963**	**12,455**

21. Expenses by nature

	2006 '000	2005 (Reclassified — Note 2.23) '000
Costs of inventories recognised as expenses included in cost of sales	**1,563,122**	1,226,719
Depreciation on property, plant and equipment	**27,307**	22,310
Amortisation of intangible assets	**8,306**	2,498
Amortisation of land use rights	**276**	130
Advertising and marketing expenses	**521,839**	375,958
Employee benefit expense — directors	**12,221**	25,476
Employee benefit expense — employees	**244,518**	194,622
Operating lease rentals in respect of land and buildings	**108,214**	96,548
Research and product development expenses	**78,837**	70,059
Transportation and logistics expenses	**53,686**	54,916
Provision for/(write back of) impairment charge of accounts receivable	**5,597**	(2,211)
Write-down of inventories to net realisable value	**14,789**	5,318
Auditors' remuneration	**3,120**	2,788
Other expenses	**165,754**	136,534
Total of cost of sales, distribution costs and administrative expenses	**2,807,586**	2,211,665

22. Other income

	2006 '000	2005 '000
Government grants (Note a)	**24,591**	29,535
Net gain on disposal of a subsidiary (Note b)	**4,970**	3,091
	29,561	32,626

Notes:

(a) During the year ended 31 December 2006, the Group received subsidies from various local governments in the PRC amounting to RMB24,591,000 (2005: RMB29,535,000).

(b) During the year ended 31 December 2006, the Group disposed of Hangzhou Edosports Goods Sales Co., Ltd., a company incorporated in the PRC and principally engaged in sales of sports goods, to two individuals unrelated to the Group, and recognised gain on disposal of RMB4,970,000.

During the year ended 31 December 2005, the Group disposed of Beijing Dongxiang Sports Development Co., Ltd., a company incorporated in the PRC which is principally engaged in sales of "KAPPA" branded products, to Shanghai Tai Tan Sporting Goods Co., Ltd., a company incorporated in the PRC in which Mr. Chen Yihong, a former director, has a beneficial interest, and recognised gain on disposal of RMB3,091,000.

23. Employee benefit expenses

	2006 '000	2005 '000
Wages and salaries	**138,979**	134,765
Contributions to retirement benefit plan (c)	**15,143**	13,476
Share options granted to directors and employees	**22,648**	27,557
Staff quarters and housing benefits	**4,879**	4,510
Other benefits	**75,090**	39,790
	256,739	220,098

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of director	Fees '000	Salary '000	Discretionary bonuses '000	Inducement fees '000	Other benefits (i) '000	Employer's contribution to pension scheme '000	Total '000
Mr. Li Ning	**408**	**1,814**	**—**	**—**	**482**	**175**	**2,879**
Mr. Zhang Zhi Yong	**508**	**1,523**	**—**	**—**	**2,644**	**117**	**4,792**
Mr. Tan Wee Seng	**408**	**573**	**469**	**—**	**1,490**	**—**	**2,940**
Mr. Lim Meng Ann	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Stuart Schonberger	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Fong Ching, Eddy (iii)	**121**	**—**	**—**	**—**	**43**	**—**	**164**
Mr. Koo Fook Sun, Louis	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Ms. Wang Ya Fei, Jane	**151**	**—**	**—**	**—**	**170**	**—**	**321**
Mr. Chan Chung Bun, Bunny	**151**	**—**	**—**	**—**	**52**	**—**	**203**

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

Name of director	Fees '000	Salary '000	Discretionary bonuses '000	Inducement fees '000	Other benefits (i) '000	Employer's contribution to pension scheme '000	Compensation for loss of office as director '000	Total '000
Mr. Li Ning	412	1,814	1,093	—	583	109	—	4,011
Mr. Zhang Zhi Yong	412	1,120	729	—	9,720	126	—	12,107
Mr. Tan Wee Seng	412	573	662	—	3,574	—	—	5,221
Mr. Chen Yi Hong (ii)	274	582	—	—	352	67	1,497	2,772
Mr. Lim Meng Ann	160	—	—	—	81	—	—	241
Mr. Stuart Schonberger	160	—	—	—	81	—	—	241
Mr. Fong Ching, Eddy (iii)	160	—	—	—	81	—	—	241
Mr. Koo Fook Sun, Louis	160	—	—	—	81	—	—	241
Ms. Wang Ya Fei, Jane	160	—	—	—	81	—	—	241
Mr. Chan Chung Bun, Bunny	160	—	—	—	—	—	—	160

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

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

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

23. Employee benefit expenses (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two directors for the year ended 31 December 2006 (2005: four directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining individuals whose emoluments were the highest in the Group for the year are as follows:

	2006 '000	2005 '000
Salaries and allowances	**1,768**	817
Other benefits	**2,266**	973
Contributions to retirement benefit scheme	**175**	45
	4,209	1,835

(c) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government under which the Group is required to make monthly defined contributions to these plans at rates ranging from 19% to 22% of the employees' basic salary dependent upon the applicable local regulations.

24. Finance cost/(income) — net

	2006 '000	2005 '000
Interest expenses on bank borrowings wholly repayable within 5 years	**—**	1,102
Amortisation of discount — license fees payable (Note 19)	**2,064**	—
Interest income on bank balances and deposits	**(14,448)**	(14,026)
Net foreign currency exchange loss	**13,749**	10,970
	1,365	(1,954)

25. Income tax expense

	2006 '000	2005 '000
Current taxation		
— Hong Kong profits tax (Note b)	**582**	365
— The PRC enterprise income tax (Note c)	**117,963**	84,741
	118,545	85,106
Deferred income tax	**(12,455)**	—
	106,090	85,106

Notes:

(a) The Company was incorporated in the Cayman Islands. Under current laws of Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd. was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2006 (2005: 17.5%).

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

25. Income tax expense (Continued)

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

	2006 **'000**	2005 '000
Profit before income tax	**401,153**	273,451
Tax calculated at a tax rate of 33%	**132,380**	90,239
Effects of different tax rate in Hong Kong	**(2,676)**	(324)
Preferential tax rates on the income of certain subsidiaries	**(51,951)**	(33,684)
Tax losses not recognised	**13,937**	8,937
Expenses not deductible for tax purposes	**23,341**	26,719
Tax credit granted to a subsidiary	**(7,170)**	(6,483)
Income not subject to tax	**(1,771)**	(298)
Taxation charge	**106,090**	85,106

The weighted average applicable tax rate was 26.4% (2005: 31.1%).

26. Dividends

	2006 **'000**	2005 '000
Interim dividend paid of RMB3.80 cents (2005: RMB2.30 cents) per ordinary share	**38,863**	22,649
Proposed final dividend of RMB7.64 cents (2005: RMB5.00 cents) per ordinary share	**78,860**	49,467
	117,723	72,116

Note:

At a board meeting held on 22 March 2006, the directors proposed a final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share. Dividend of RMB49,467,000 was paid to shareholders whereafter in 2006.

At a board meeting held on 20 March 2007, the directors proposed a final dividend of RMB7.64 cents per ordinary share, totalling RMB78,860,000 for the year ended 31 December 2006. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2007.

27. Share-based compensation

(a) Share Purchase Scheme

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

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

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

27. Share-based compensation (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 36 months.

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

	2006 Weighted average exercise price (per share) HK$	**2006** Outstanding options (thousands)	2005 Weighted average exercise price (per share) HK$	2005 Outstanding options (thousands)
As at 1 January	**0.65**	**20,370**	0.69	24,630
Granted	**0.86**	**4,500**	3.19	4,603
Exercised	**0.72**	**(11,474)**	2.07	(8,863)
Lapsed	**0.86**	**(769)**	—	—
As at 31 December	**0.66**	**12,627**	0.65	20,370
Exercisable as at 31 December	**0.49**	**8,727**	0.68	16,042

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

Expire date	**2006** Weighted average exercise price (per share) HK$	**2006** Share options (thousands)	2005 Weighted average exercise price (per share) HK$	2005 Share options (thousands)
8 June 2010	**0.55**	**8,332**	0.64	18,967
11 November 2011	**0.86**	**395**	0.86	1,403
5 July 2012	**0.86**	**3,700**	—	—
30 August 2012	**0.86**	**200**	—	—
		12,627		20,370

(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Option") on 5 June 2004. HK$1 is payable by the grantee who accepts the grant of an option. The purpose of the scheme is to give the directors and full-time employees of the Company and the Group an opportunity to have a personal stake in the Company and recognise their contribution to the Group.

Total number of share options subject to the Pre-IPO Option is 16,219,000 shares and they have been granted on 5 June 2004. No further share options will be granted under the Pre-IPO Option. Options granted under the Pre-IPO Option vest gradually after employees or directors complete a period of service in the Group for 12 to 36 months starting from the date of grant (5 June 2004).

27. Share-based compensation (Continued)

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

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

	2006		2005	
	Exercise price (per share) HK$	**Outstanding options (thousands)**	Exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	**1.8275**	**11,512**	1.8275	15,641
Exercised	**1.8275**	**(3,644)**	1.8275	(3,129)
Lapsed	**1.8275**	**(623)**	1.8275	(1,000)
As at 31 December	**1.8275**	**7,245**	1.8275	11,512
Exercisable as at 31 December	**1.8275**	**3,244**	1.8275	2,501

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

	2006		2005	
Expire date	**Exercise price (per share) HK$**	**Share options (thousands)**	Exercise price (per share) HK$	Share options (thousands)
5 June 2010	**1.8275**	**7,245**	1.8275	11,512

(c) Share Option Scheme

Pursuant to a shareholders' resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Post-IPO Option"). The Post-IPO Option will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the Post-IPO Option is to provide incentives to eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

HK$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as 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.

27. Share-based compensation (Continued)

(c) Share Option Scheme (Continued)

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.

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

	2006		2005	
	Weighted average exercise price (per share) HK$	Outstanding options (thousands)	Exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	3.685	15,505	—	—
Granted	8.596	3,778	3.685	15,921
Exercised	3.685	(2,386)	—	—
Lapsed	4.109	(1,602)	3.685	(416)
As at 31 December	4.951	15,295	3.685	15,505
Exercisable as at 31 December	3.685	2,638	—	—

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

	2006		2005	
Expire date	Exercise price (per share) HK$	Share options (thousands)	Exercise price (per share) HK$	Share options (thousands)
4 July 2011	3.685	11,649	3.685	15,505
3 January 2012	5.500	360	—	—
4 September 2012	8.830	2,896	—	—
11 October 2012	8.950	90	—	—
20 November 2012	9.840	300	—	—
		15,295		15,505

(d) Fair value of share options

The fair value of the options granted under the above schemes during the years ended 31 December 2006 and 2005 determined using Black-Scholes valuation model were as follows:

	2006 '000	2005 '000
Alpha Talent Option	27,068	10,190
Post-IPO Option	10,771	17,368

The fair values of Alpha Talent Option, Pre-IPO Option and Post-IPO Option are charged to the income statement over the vesting period of the options. The amount charged in 2006 were RMB11,705,000, RMB1,422,000, and RMB8,429,000 respectively (2005: RMB17,904,000, RMB4,521,000 and RMB5,132,000).

27. Share-based compensation (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:

	2006	2005
Alpha Talent Option		
Weighted average share price (HK$)	**7.26**	4.68
Weighted average exercise price (HK$)	**0.86**	3.19
Expected volatility	**43.7%**	39.2%
Expected option life (years)	**4.00**	3.11
Weighted average annual risk free interest rate	**4.7%**	4.4%
Expected dividend yield	**2.0%**	2.0%
Post-IPO Option		
Weighted average share price (HK$)	**8.53**	3.65
Weighted average exercise price (HK$)	**8.60**	3.69
Expected volatility	**43.8%**	39.2%
Expected option life (years)	**3.98**	4.00
Weighted average annual risk free interest rate	**4.0%**	3.3%
Expected dividend yield	**2.0%**	2.0%

The expected volatility is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004).

(e) Restricted Share Award Scheme

The Company adopted the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statement as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with finance provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocated to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 20,555,900 shares, being 2% of the Company's issued ordinary shares as at the adoption date of 14 July 2006. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued ordinary shares as at the adoption date of 14 July 2006.

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

27. Share-based compensation (Continued)

(e) Restricted Share Award Scheme (Continued)

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

	2006		2005	
	Weighted average fair value per share HK$	**Number of Restricted Shares granted (thousands)**	Weighted average fair value per share HK$	Number of Restricted Shares granted (thousands)
As at 1 January	**—**	**—**	—	—
Granted	**9.10**	**763**	—	—
Lapsed	**9.01**	**(6)**	—	—
As at 31 December	**9.10**	**757**	—	—
Vested on 31 December	**—**	**—**	—	—

The fair value of Restricted Shares charged to the income statement was RMB1,092,000 (2005: Nil).

28. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, less shares held for Restricted Share Award Scheme.

	2006 '000	2005 '000
Profit attributable to equity holders of the Company	**294,846**	186,800
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	**1,029,030**	1,023,827
Basic earnings per share (RMB cents)	**28.65**	18.25

28. Earnings per share (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the payout of the awarded shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows.

	2006 **'000**	2005 '000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**294,846**	186,800
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	**1,029,030**	1,023,827
Adjustment for share options and awarded shares (in thousands)	**14,537**	6,750
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,043,567**	1,030,577
Diluted earnings per share (RMB cents)	**28.25**	18.13

29. Cash flow statement

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

	2006 **'000**	2005 '000
Profit before income tax	**401,153**	273,451
Adjustments for:		
Depreciation	**27,307**	22,310
Amortisation	**8,582**	2,628
Provision for/(write-back of) impairment charge on accounts receivable	**5,597**	(2,211)
Write-down of inventories to net realisable value	**14,789**	5,318
Gain on disposal of a subsidiary	**(4,970)**	(3,091)
Share options charged to compensation expense	**22,648**	27,557
Loss on disposals of property, plant and equipment and intangible assets	**1,564**	884
Finance cost/(income) — net	**1,365**	(1,954)
Operating profit before working capital changes	**478,035**	324,892
(Increase)/decrease in inventories	**(83,295)**	11,126
Increase in accounts and notes receivable	**(213,084)**	(176,441)
(Increase)/decrease in other receivables and prepayments	**(48,489)**	7,642
Increase/(decrease) in trade payables	**226,561**	(19,951)
Increase in other payables and accruals	**35,639**	59,294
Cash inflow generated from operations	**395,367**	206,562

29. Cash flow statement (Continued)

(b) Disposal of a subsidiary

On 1 March 2006, the Group disposed of Hangzhou Edosports Goods Sales Co., Ltd., a company incorporated in the PRC and principally engaged in sale of sports goods, to two individuals unrelated to the Group, for a cash consideration of RMB1,630,000.

Major assets and liabilities of Hangzhou Edosports Goods Sales Co., Ltd. as at 1 March 2006 are as follows:

	’000
Property, plant and equipment	505
Inventories	8,579
Accounts receivable	1,570
Other receivables and prepayments	1,973
Cash and cash equivalents	1,739
	14,366
Trade payables	(16,263)
Other payable and accruals	(1,443)
	(17,706)
Net liabilities	(3,340)
Consideration	1,630
Gain on disposal	4,970

Analysis of cash outflow from disposal:

	’000
Consideration in cash	1,630
Less: Cash and cash equivalents disposed	(1,739)
Net cash outflow	(109)

30. Commitments

(a) Capital commitments

Capital expenditure authorised but not contracted and contracted but not paid at the balance sheet date is as follows:

	2006 ’000	2005 ’000
Property, plant and equipment		
— authorised but not contracted	**5,243**	98,000
— contracted but not paid	**102,601**	—
Land use right		
— contracted but not paid	**—**	12,000
	107,844	110,000

30. Commitments (Continued)

(b) Operating lease commitments — where group companies are the lessee

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

	2006 '000	2005 '000
No later than 1 year	**47,933**	51,776
Later than 1 year and not later than 5 years	**157,183**	91,893
Later than 5 years	**6,413**	2,880
	211,529	146,549

31. Significant related party transactions

The Group has following significant related party transactions:

	2006 '000	2005 '000
Sale 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, an ex-director	**–**	9,663
— 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Company Limited), a company controlled by the family members of Mr. Chen Yi Hong, an ex-director	**–**	345
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	**3,729**	3,250
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, an ex-director	**–**	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.

32. Events after the balance sheet date

(a) On 1 January 2007, options to purchase 300,000 shares of the Company held by Alpha Talent Management Limited, a company owed by Mr. Li Ning who is the chairman and a substantial shareholder of the Company, were granted to certain employees of the Group at an exercise price of HK$0.86 per share pursuant to the share purchase scheme of Alpha Talent Management Limited.

(b) On 12 January 2007, 5,500 restricted shares of the Company were granted to certain employees of the Group pursuant to the Restricted Share Award Scheme.