



## Report of Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are branding development, design, manufacturing and sales of sports-related footwear, apparel and accessories sold under our own LI-NING brand and the KAPPA brand, which is exclusively licenced to us for use in the PRC and Macau.

There are no significant changes in the nature of these principal activities during the financial year.

### THE ISSUE AND LISTING OF SHARES

The Company listed its shares on the Main Board of the Hong Kong Stock Exchange on 28 June 2004 and offered and issued 273,038,000 shares (including the shares issued upon the exercise of the over-allotment option) by way of public offer in Hong Kong and international placing at an issue price of HK\$2.15 per share.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 60 to 108 of this annual report.

The Directors recommended the payment of a final dividend of RMB4.57 cents (equivalent to HK4.30 cents) (2003: Nil) per share in respect of the year ended 31 December 2004. No interim dividend was paid for the year ended 31 December 2004. The translation of RMB into Hong Kong dollars is made, for illustration purpose only, at the rate of HK\$1.00=RMB1.0638. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the official fixing exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 12 May 2005, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

The dividend will be payable on or about 20 May 2005 to the shareholders whose names appear on the register of members of the Company on 12 May 2005. The register of members of the Company will be closed from Monday, 9 May 2005 to Thursday, 12 May 2005 (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 4:00 p.m. on Friday, 6 May 2005.

## RESERVES

As at 31 December 2004, distributable reserves of the Company amounted to RMB555,780,000 (2003: Nil). The movements in reserves during the year are set out in note 25 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	<b>Year ended 31 December</b>	
	<b>2004</b>	2003
	<b>% of total turnover</b>	% of total turnover
Five largest customers	<b>13.1</b>	13.6
The largest customer	<b>3.9</b>	4.3
	<b>% of total purchases</b>	% of total purchases
Five largest suppliers	<b>30.2</b>	34.1
The largest supplier	<b>9.1</b>	8.3

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge of the Directors, none of the Directors, nor any shareholder or their respective associates, who own more than 5% of the issued share capital of the Company has any interests in any of the Group's five largest customers or five largest suppliers.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in note 23 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB75,000 (2003: RMB10,240,000).



## Report of Directors

### PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment are set out in note 13 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 to the financial statements.

Details of the movements of share options of the Company during the year are set out in note 26 to the financial statements.

### FOUR-YEAR FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last four 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 over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

### SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 32 to the financial statements.

### 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	(appointed on 4 March 2004)
Mr. Zhang Zhi Yong	(appointed on 5 June 2004)
Mr. Tan Wee Seng	(appointed on 5 June 2004)
Mr. Chen Yi Hong	(appointed on 5 June 2004)

#### *Non-Executive Directors*

Mr. Lim Meng Ann	(appointed on 5 June 2004)
Mr. Stuart Schonberger	(appointed on 5 June 2004)
Mr. Fong Ching, Eddy	(appointed on 5 June 2004)

*Independent Non-Executive Directors*

Mr. Koo Fook Sun, Louis (appointed on 5 June 2004)

Ms. Wang Ya Fei (appointed on 5 June 2004)

Mr. Chan Chung Bun, Bunny (appointed on 5 June 2004)

In accordance with article 87 of the Company's articles of association, Mr. Chen Yi Hong, Mr. Stuart Schonberger and Mr. Chan Chung Bun, Bunny will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors as at the date of this report are set out on pages 35 to 37 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the Non-Executive and Independent Non-Executive Directors has entered into a service contract with the Company for a term of 3 years commencing on 28 June 2004 and thereafter shall continue from year to year until terminated by giving one month's notice in writing thereof by either party to the other.

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any its subsidiaries within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" set out in this report and note 31 to the financial statements on "Significant Related Party Transactions", no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

## SENIOR MANAGEMENT

The biographical details of the senior management as at the date of this report are set out on pages 38 to 39 of this annual report.



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### EMOLUMENT POLICY

The Remuneration Committee reviews and recommends to the Board the framework of executive remuneration and its costs, and the remuneration package for each Executive Director. In framing the Group's remuneration policy, the Remuneration Committee receives advice from external consultants and taking into accounts of the Group's operating results, individual performance and comparable market conditions.

The determination of the remuneration of Non-Executive Directors is a matter for the Board of Directors as a whole. The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.

Directors do not participate in decisions on their own remuneration packages.

### PENSION SCHEMES

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal 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. The Group also participates in the Mandatory Provident Fund Plan mandated by the government of Hong Kong which is a defined contribution retirement benefit plan. Contributions to these plans are expensed as incurred.

According to the aforesaid plans, the Group cannot forfeit contributions of the provident fund. The Group's contributions to retirement benefit scheme charged to the consolidated profit and loss account for the year ended 31 December 2004 is RMB16,255,000.

### SHARE OPTION SCHEMES

#### **Employee Share Purchase Scheme**

As part of the reorganisation of the Group prior to the listing of the Company's shares on the Hong Kong Stock Exchange, Mr. Li Ning, a substantial shareholder and Chairman of the Company has, through Alpha Talent Management Limited ("Alpha Talent"), established the Employee Share Purchase Scheme (the "ESP Scheme"). Under the ESP Scheme, Mr. Li transferred 35,250,000 of the Company's shares beneficially owned by him to Alpha Talent. The objectives of the ESP Scheme 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 ESP 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 employees of the Group who shall be selected to receive options, the exercise price, the terms and conditions of the options.

As at 31 December 2004, options to purchase for 25,230,000 shares of the Company held by Alpha Talent have been granted under the ESP Scheme to 3 Executive Directors of the Company and 28 employees of the Group. During the year, no options have been exercised to purchase the shares of the Company. Details of the outstanding options as at 31 December 2004 were as follows:

	Number of share options granted on 8 June 2004	Number of share options lapsed during the year	Number of share options as at 31 December 2004	Exercise price HK\$	% of options	Vesting date	Exercise period
<b>Executive Directors</b>							
Zhang Zhi Yong	9,750,000	–	9,750,000	0.43	40	28 December 2004	28 December 2004 to 8 June 2010
					30	28 December 2005	28 December 2005 to 8 June 2010
					30	28 December 2006	28 December 2006 to 8 June 2010
Tan Wee Seng	2,700,000	–	2,700,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
Chen Yi Hong	750,000	–	750,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
<b>Other employees of the Group</b>							
In aggregate	12,030,000	(600,000)	11,430,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
	<u>25,230,000</u>	<u>(600,000)</u>	<u>24,630,000</u>				



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### Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) with the purpose to give the participants an opportunity to have a personal stake in the Company and recognise the contribution of, and provide an incentive to, the full-time employees of the Group including the Executive and Non-Executive Directors who, in the sole discretion of the Company’s Board of Directors, has contributed or will contribute to the Company. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. The exercise price per share is HK\$1.8275, being 15% discount to the price for each share upon the initial public offering of the Company’s shares on the Hong Kong Stock Exchange. HK\$1 is payable by the grantee who accepts the grant of an option. The option period of all options granted does not exceed 10 years. No further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme upon the listing of the shares of the Company on the Hong Kong Stock Exchange on 28 June 2004. No options have been vested as at 31 December 2004. Details of movements of share options under the Pre-IPO Share Option Scheme are as follows:

	Number of share options granted on 5 June 2004	Number of share options lapsed during the year	Number of share options as at 31 December 2004	Exercise price HK\$	% of options	Vesting date	Exercise period
Executive Directors							
Zhang Zhi Yong	1,597,000	–	1,597,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Tan Wee Seng	1,287,000	–	1,287,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Other employees of the Group							
In aggregate	13,335,000	(578,000)	12,757,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
	16,219,000	(578,000)	15,641,000				

The Directors have not valued the options granted during the year as a number of factors critical for the valuation cannot be determined accurately.

## Share Option Scheme

Pursuant to a shareholder's written resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Share Option Scheme"). The Share Option Scheme will remain in force for a period of 10 years from 5 June 2004.

The purpose of the Share Option Scheme 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, the Board of Directors of the Company 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.

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 at least the highest of: (a) the closing price of the shares of the Company 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 of the Company as stated in the Hong Kong Stock Exchange'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 of the Company which may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. In addition, subject as provided under the Listing Rules, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the 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 as at 28 June 2004, being the date of the listing of the shares of the Company on the Hong Kong Stock Exchange. Therefore, as at the date of this annual report, the Company may grant options in respect of up to 98,606,200 shares of the Company (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 participants under the Share Option Scheme. 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 Share Option Scheme 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 grant.





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Any shares 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.

As at 31 December 2004, no options have been granted by the Company under the Share Option Scheme.

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

As at 31 December 2004, the interests and short positions of the Directors in the shares (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 of the Hong Kong Stock Exchange, were as follows:

#### **Mr. Li Ning**

<b>Interest in the Shares</b>	<b>Number of Shares held</b>	<b>Type of interest</b>	<b>Approximate % in total issued share capital</b>
<i>Long position</i>			
– Shares	405,424,000	Corporate	39.63
<i>Short position</i>			
– Shares	25,230,000	Corporate	2.47

*Note:* Mr. Li Ning is taken to be interested in an aggregate of 405,424,000 Shares held by Victory Mind Assets Limited, Champion Link Capital Limited and Alpha Talent Management Limited respectively as follows:

- (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 62.106% by Mr. Li Ning. Mr. Li Ning is taken to be interested in 220,174,000 Shares that Victory Mind Assets Limited is interested. Mr. Li Ning is a director of Victory Mind Assets Limited.
- (b) 150,000,000 Shares are held by Champion Link Capital Limited. The entire interest in Champion Link Capital Limited is held by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, of which the units in issue 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 his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and is taken to be interested in 150,000,000 Shares that Champion Link Capital Limited is interested. Mr. Li Ning is a director of Champion Link Capital Limited and Dragon City Management Limited.
- (c) 35,250,000 Shares are held by Alpha Talent Management Limited, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the ESP Scheme. Mr. Li Ning is taken to be interested in 35,250,000 Shares that Alpha Talent Management Limited is interested. Mr. Li Ning is a director of Alpha Talent Management Limited.

Mr. Li Ning is taken to have a short position in 25,230,000 Shares, among the total of 35,250,000 Shares, held by Alpha Talent Management Limited in the Company. As at 31 December 2004, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to the ESP Scheme and no options had been exercised to subscribe for such shares under the ESP Scheme. Mr. Li Ning is the sole shareholder of Alpha Talent Management Limited, a controlled corporation of Mr. Li Ning, he is thus taken to have a short position in the 25,230,000 Shares.

**Mr. Zhang Zhi Yong**

Interest in the Shares	Number of Shares/ options held	Type of interest	Approximate % in total issued share capital
<i>Long position</i>			
– Shares and options	15,047,000	Personal	1.47

*Note:* Mr. Zhang Zhi Yong is taken to be interested in a total of 15,047,000 Shares. In addition to the 3,700,000 Shares held upon completion of the share offer of the Company in June 2004, Mr. Zhang Zhi Yong is also taken to be interested as a grantee of options to purchase 9,750,000 Shares under the ESP Scheme and options to subscribe for 1,597,000 Shares under the Pre-IPO Share Option Scheme.

**Mr. Tan Wee Seng**

Interest in the Shares	Number of options held	Type of interest	Approximate % in total issued share capital
<i>Long position</i>			
– Options	3,987,000	Personal	0.39

*Note:* Mr. Tan Wee Seng is interested in a total of 3,987,000 Shares of the Company. He is taken to be interested as a grantee of options to purchase 2,700,000 Shares under the ESP Scheme and options to subscribe for 1,287,000 Shares under the Pre-IPO Share Option Scheme.



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### **Mr. Chen Yi Hong**

<b>Interest in the Shares</b>	<b>Number of Shares/ options held</b>	<b>Type of interest</b>	<b>Approximate % in total issued share capital</b>
Long position			
– Shares and options (Note 1)	19,486,000	Personal interest, Family interest	1.90

### **Interest in associated**

**corporation – 北京動向  
體育發展有限公司**

**Beijing Dong Xiang Sports  
Development Co., Ltd.  
("Beijing Dong Xiang")**

	<b>Number of shares held</b>	<b>Type of interest</b>	<b>Approximate % in total registered capital</b>
Long position			
– Equity interest (Note 2)	–	Corporate interest	20

### *Notes:*

1. Mr. Chen Yi Hong is interested in 15,926,000 Shares registered in his name and is additionally taken to be interested in the 2,810,000 Shares registered in the name of his wife, Ms. Liu Pei Ying. Mr. Chen Yi Hong is also taken to be interested as a grantee of options to purchase 750,000 Shares under the ESP Scheme.
2. Beijing Dong Xiang is a subsidiary of the Company. The registered capital of Beijing Dong Xiang is held as to 20% by Shanghai Lei De Sports Development Co., Ltd., which is owned as to 49.1% by Mr. Chen Yi Hong and is thus a controlled corporation of Mr. Chen Yi Hong. As Beijing Dong Xiang is a limited liability company established in the PRC with its issued capital represented by equity interest, Mr. Chen Yi Hong's interest in Beijing Dong Xiang is represented by a percentage of the equity interest and not by shares.

Save as disclosed above, so far as was known to any Director, as at 31 December 2004, none of the Directors or chief executives of the Company had any interest or short positions 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or 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 2004, 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, being 5% or more of the Company's issued share capital:

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Li Chun ( <i>Note 1</i> )	370,174,000 (Long position)	Interest of controlled corporation	Personal	36.18
Victory Mind Assets Limited ( <i>Note 1(a)</i> )	220,174,000 (Long position)	Beneficial owner	Corporate	21.52
Champion Link Capital Limited ( <i>Note 1(b)</i> )	150,000,000 (Long position)	Beneficial owner	Corporate	14.66
Dragon City Management Limited ( <i>Note 1(b)</i> )	150,000,000 (Long position)	Trustee	Corporate	14.66
Cititrust (Cayman) Limited ( <i>Note 1(b)</i> )	150,000,000 (Long position)	Trustee	Corporate	14.66
Tetrad Ventures Pte. Ltd. ( <i>Note 2</i> )	149,737,500 (Long position)	Beneficial owner	Corporate	14.64



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Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
GIC Special Investments Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Government of Singapore Investment Corporation Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Minister of Finance (Incorporated) (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
JPMorgan Chase & Co (Note 3)	48,686,000 (Long position)	Investment manager	Corporate	4.76
	15,912,000 (Long position)	Custodian Corporation/ Approved lending agent	Corporate	1.56
Fidelity International Limited	61,466,000 (Long position)	Investment manager	Corporate	6.01

## Notes:

1. Mr. Li Chun is taken to be interested in an aggregate of 370,174,000 Shares held by Victory Mind Assets Limited and Champion Link Capital Limited, respectively, as follows:
  - (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 37.894% by Mr. Li Chun, and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Victory Mind Assets Limited is a controlled corporation of Mr. Li Chun; and
  - (b) 150,000,000 Shares are held by Champion Link Capital Limited, which is wholly owned by Dragon City Management Limited 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 Chun and his brother, Mr. Li Ning. Mr. Li Chun is the settlor of the Gingko Trust and is taken to be interested in the 150,000,000 Shares that Champion Link Capital Limited is interested.
2. 149,737,500 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).
3. 15,912,000 Shares are held in the lending pool by JPMorgan Chase & Co.
4. Mr. Li Ning is also a substantial shareholder of the Company. Please refer to the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" for the disclosure of interests of Mr. Li Ning.

Save as disclosed above, as at 31 December 2004, the Company has not been notified of any interests and short positions in the shares and underlying shares of the Company which is required to be recorded in the register kept under Section 336 of the SFO.

## CONNECTED TRANSACTIONS

During the year, 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, which is owned as to 80% by Shanghai Ning Sheng Corporate Management Co., Ltd. ("Shanghai Ning Sheng"). By reason of the interests of Mr. Li Ning (an Executive Director and Chairman 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 purposes of the Listing Rules.

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



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Payments from Beijing Li Ning to Beijing Edo Sports for the year ended 31 December 2004 amounted to an aggregate of RMB2,640,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

2. *Non-exclusive distributorship arrangement of KAPPA branded products by 北京動感九六體育用品有限公司 (Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.) ("Dong Gan Jiu Liu")*

Dong Gan Jiu Liu is a limited company established in the PRC, which is owned as to 70% by Mr. Chen Yi Liang (a brother of Mr. Chen Yi Hong, an Executive Director and as to 30% by a company beneficially owned by the family members of Mr. Chen Yi Hong. Dong Gan Jiu Liu is an associate of Mr. Chen Yi Hong and, hence, a connected person of the Company for the purposes of the Listing Rules.

On 1 January 2004, Beijing Dong Xiang (as supplier), a subsidiary of the Company, and Dong Gan Jiu Liu (as non-exclusive distributor) entered into a non-exclusive distributorship framework agreement for the sale of KAPPA branded products for a term of three years commencing from 1 January 2004.

Transaction value for the distribution of licensed products between Beijing Dong Xiang and Dong Gan Jiu Liu for the year ended 31 December 2004 amounted to an aggregate of RMB15,509,000. The relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus was RMB14,000,000. An announcement was made by the Company on 2 December 2004 in relation to the revision of the annual cap for the year ended 31 December 2004 to RMB20,000,000.

3. *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. Dong Gan Jing Ji is an associate of Mr. Chen Yi Hong and, hence, a connected person of the Company for the purposes of the Listing Rules.

On 1 January 2004, Beijing Li Ning (as supplier) and Dong Gan Jing Ji (as non-exclusive distributor) have 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 commencing from 1 January 2004.

Transaction value for the distribution of products between Beijing Li Ning and Dong Gan Jing Ji for the year ended 31 December 2004 amounted to an aggregate of RMB911,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

The Independent Non-Executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been 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 the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company has also confirmed to the Board of Directors in writing that the continuing connected transactions:

- (1) have received the approval of the Company's Board of Directors;
- (2) are in accordance with the pricing policies of the Group;
- (3) have been entered into in accordance with the relevant agreement governing the transactions; and
- (4) have not exceeded the respective cap.

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

The Company has not redeemed any of its shares during the year ended 31 December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules (in force before 1 January 2005) since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.

Further information on corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 34 of this annual report.





## Report of Directors

### SUFFICIENCY OF PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.

### ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") which are applicable for the year ended 31 December 2004. Our management is aware of a number of new and revised international financial reporting standards issued by the International Accounting Standards Board (the "new IFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRSs in the financial statements for the year ended 31 December 2004. The management is in the process of making an assessment of the impact of these new IFRSs and has so far concluded that the adoption of IFRS 2 "Share-based Payment" would have an impact on the results of operations and financial position of the Group. Under the existing IFRSs, the provision of share options to employees and Directors did not result in a charge to the Group's profit and loss account. Under the new IFRSs, the Group will have to recognise share-based payment transactions in its financial statements, including charging to the profit and loss account the cost of the services received from its employees and Directors under the share option scheme measured by reference to the fair value of the share options granted. The management is in the process of assessing the impact of such new IFRSs on the Group's financial statements for the year ended 31 December 2005 including the related comparative figures. The Group has already commenced an assessment of the impact of other new IFRSs but is not yet in a position to state whether these new IFRSs would have a significant impact on its results of operations and financial position.

### 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 is to be proposed at the forthcoming annual general meeting.

By order of the Board

**LI Ning**

*Chairman*

Hong Kong, 29 March 2005