



Li Ning Company Limited (李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)



Placing & Public Offer

Global Coordinator, Bookrunner, Lead Manager and Sponsor



IMPORTANT

If you are in any doubt about this prospectus, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.



LI NING COMPANY LIMITED (李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)

Listing on the Main Board of The Stock Exchange of Hong Kong Limited by way of International Placing and Hong Kong Public Offer

**Number of Offer Shares : 246,516,000 Offer Shares
(subject to the Over-allotment Option)**

**Number of Hong Kong Offer Shares : 24,652,000 New Shares
(subject to reallocation)**

**Number of International Placing Shares : 221,864,000 Offer Shares comprising
211,410,000 New Shares and
10,454,000 Sale Shares
(subject to the Over-allotment Option
and reallocation)**

**Offer Price : Not more than HK\$2.23 per Offer Share
payable in full upon application and
subject to refund**

Nominal value : HK\$0.10 per Share

Stock code : 2331

Global Coordinator, Bookrunner, Lead Manager and Sponsor



The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement among the Global Coordinator (on behalf of the Underwriters), the Vendors and us on the Price Determination Date. The Price Determination Date is expected to be on or before Monday, 21 June, 2004 (Hong Kong time) and, in any event, not later than Friday, 25 June, 2004 (Hong Kong time). The Offer Price will be not more than HK\$2.23 and is currently expected to be not less than HK\$1.76. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.23 for each Hong Kong Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and investor compensation levy imposed by the SFC of 0.002%, subject to refund.

The Global Coordinator (on behalf of the Underwriters, and with our consent) may reduce the indicative offer price range below that stated in this prospectus (which is HK\$1.76 to HK\$2.23) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction in the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. If, for whatever reason, we, the Vendors and the Global Coordinator are not able to agree on the Offer Price, the Share Offer (including the Hong Kong Public Offer) will not proceed and will lapse.

The obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Global Coordinator (for itself and on behalf of the Underwriters) by notice to us in writing upon the occurrence of any of the events set forth under in the section headed "Underwriting" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on Sunday, 27 June, 2004, being the day immediately preceding the date on which dealings in the Shares on the Main Board first commence. Prospective investors of the Offer Shares should refer to that section for further details.

15 June, 2004

EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offer.

Application lists of the Hong Kong Public Offer open (<i>Note 2</i>)	11:45 a.m. on Friday, 18 June, 2004
Latest time for lodging WHITE and YELLOW Application Forms (<i>Note 2</i>)	12:00 noon on Friday, 18 June, 2004
Latest time to give electronic application instructions to HKSCC (<i>Notes 2 and 3</i>)	12:00 noon on Friday, 18 June, 2004
Application lists of the Hong Kong Public Offer close (<i>Note 2</i>)	12:00 noon on Friday, 18 June, 2004
Expected Price Determination Date (<i>Note 4</i>)	Monday, 21 June, 2004
Announcement of the Offer Price and the levels of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares (with successful applicants' identification document numbers, where appropriate) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Friday, 25 June, 2004
Despatch of Offer Share certificates or deposit of the Offer Shares certificates into CCASS in respect of wholly or partially successful applications on or before (<i>Note 5</i>)	Friday, 25 June, 2004
Refund cheques in respect of wholly or partially unsuccessful applications to be despatched on or before (<i>Notes 5 and 6</i>)	Friday, 25 June, 2004
Dealings in the Shares on the Main Board expected to commence on	Monday, 28 June, 2004

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 June, 2004, the application lists will not open on that day. Further information is set forth in the section headed "How to apply for the Hong Kong Offer Shares – Effect of bad weather on the opening of the application lists of the Hong Kong Public Offer" in this prospectus.
- (3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for the Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

(4) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or before Monday, 21 June, 2004 and, in any event, not later than Friday, 25 June, 2004. If, for any reason, the Offer Price is not agreed by Friday, 25 June, 2004, the Share Offer will not proceed and will lapse.

(5) Applicants using **WHITE** Application Forms who apply for 1,000,000 Shares or more Hong Kong Offer Shares and have indicated in their relevant Application Forms to collect the Share certificate and/or refund cheque (if applicable) in person may do so from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, between 9:00 a.m. and 1:00 p.m. on Friday, 25 June, 2004 or on the date notified by us as the date of despatch of the Share certificates and refund cheques. Applicants being individuals who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for collection in person must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives, as the case may be, must produce at the time of collection evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If an applicant has opted for collection in person but does not collect the Share certificate and/or refund cheque (if applicable) by 1:00 p.m. on Friday, 25 June, 2004, the Share certificate and/or refund cheque (if applicable) will be sent to the address as appeared on the relevant application form in the afternoon on the date of despatch by ordinary post at the applicant's own risk.

Applicants who apply for 1,000,000 Shares or more Hong Kong Offer Shares and have not indicated on the **WHITE** Application Forms that the Shares certificate and/or refund cheque (if applicable) will be collected in person, then the Share certificate and/or refund cheque (if applicable) will be sent to the address as appeared on the relevant Application Form on the date of despatch by ordinary post at the applicant's own risk.

Applicants using **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC should follow the relevant arrangements as set forth under the section headed "How to apply for the Hong Kong Offer Shares – Despatch/collection of Share certificates and refund of application monies" in this prospectus.

(6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

Share certificates will only become valid certificates of title if the Hong Kong Public Offer has become unconditional and the Underwriting Agreement has not been terminated in accordance with its terms, which is 6:00 p.m. on Sunday, 27 June, 2004. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorised any person to provide you with information that is different from what is contained in this prospectus.

Any information or representation not included in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Vendors, the Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Hong Kong Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Hong Kong Offer Shares are set forth in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Hong Kong Offer Shares.

Various expressions used in this summary are defined in the section headed "Definitions" in this prospectus.

OVERVIEW

We are one of the leading sports brand enterprises in the PRC. We have our own branding, research, design, manufacturing, distribution and retail capabilities. Our products include sports footwear, apparel and accessories for sport and leisure use primarily sold under the LI-NING brand, which is owned by us, and the KAPPA brand, which is exclusively licenced to us for use in the PRC and Macau.

We have established an extensive distributorship and retail network in the PRC market. We sell to our distributors who operate franchised LI-NING and KAPPA retail outlets under our supervision. We also operate our own LI-NING and KAPPA retail stores and concessions. As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. As at the same date, we also operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands in the PRC.

Internationally, we focus our sales of LI-NING branded products in Italy, Spain and Russia through our independent distributors.

The processing and manufacturing of the majority of our sports apparel and of all of our sports footwear and accessories are subcontracted to independent contract manufacturers in the PRC. We manufacture a small portion of our sports apparel in our own manufacturing facilities located in Sanshui, Guangdong, the PRC.

For the LI-NING brand, we pursue opportunities to reinforce and capitalise on our brand recognition by expanding our product offerings and developing new product lines. For licenced international brands, we intend to pursue opportunities to enter into exclusive management rights or licences of other foreign sports brands with good market potential to manufacture, market and sell in the PRC market.

We rely on our strong brand awareness, extensive distributorship and retail coverage, as well as independent design, development and research capabilities to capture market share and maximise sales. New designs and products are developed at our design and development centres in Beijing and Foshan, Guangdong, the PRC.

SUMMARY

During the Track Record Period, our turnover increased from approximately RMB734.9 million in 2001 to approximately RMB1,276.2 million in 2003, achieving a CAGR of approximately 31.8%. During the same period, our net profit increased from approximately RMB49.6 million in 2001 to approximately RMB94.0 million in 2003, achieving a CAGR of approximately 37.6%.

As one of the leading sports brand enterprises in the PRC, we expect to benefit from the anticipated strong growth of the overall sporting goods industry in the PRC. We also expect to leverage our leading position in the PRC market to expand overseas.

BRANDED SPORTING GOODS INDUSTRY IN THE PRC

There are limited published statistics available from independent sources on the branded sporting goods industry in the PRC. Based on our participation in the PRC's branded sporting goods industry since 1989 and over 10 years of industry experience of our key management members, our Directors believe that:

- the sporting goods industry in the PRC has experienced continued growth in recent years;
- sales of branded sporting goods were mainly channelled through shopping centres in 1st-tier cities, and through specialised retail stores in 2nd-tier and 3rd-tier cities;
- consumers in 1st-tier cities and high-end consumers tend to focus on product functionality and performance because of their more mature consumption behavior, greater participation in sports, and greater propensity to spend. As a result, product diversification offers significant opportunities in these markets;
- the branded sporting goods industry in the PRC is expected to continue to grow rapidly over the next five years. During such period, the 2008 Beijing Olympic Games is expected to stimulate the consumption of sporting goods and positively impact the overall market growth;
- there are many local and international sports brands competing in the PRC market. Our principal competitors are Nike, Adidas, Anta, Doublestar and Kangwei;
- generally, in the PRC, international brands perform better in 1st-tier cities and some coastal cities where consumer spending is higher on a per capita basis. Domestic brands are more competitive in 2nd-tier and 3rd-tier cities; and
- the performance of the branded sporting goods industry and its industry players depends on the following principal factors:
 - the level of consumer disposable income in the PRC;
 - the level of demand for sporting goods;
 - changes in the operating conditions in the PRC consumer and retail market;

SUMMARY

- the ability of the relevant industry player to manage and control operating costs; and
- the effectiveness of the relevant industry player to compete on the basis of product quality, design, brand image, service, selection and price.

In 2003, the Horizon Research Group (an independent PRC company specialising in the market research and survey of the PRC consumer market) conducted a survey on major local and international footwear brands in the PRC and published a research report titled “2003 Brand Equity Research on Recognised Sports Footwear Brands (2003年知名運動鞋品牌價值研究報告)”. This research report was concluded by interviewing 3,443 adult residents over the age of 18 in 10 larger cities in the PRC (Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Shenyang, Xian, Jinan, Dalian and Xiamen) and 1,480 adult residents over the age of 18 in 9 smaller cities in the PRC (Zhejiang, Fujian, Liaoning, Hebei, Anhui, Hunan, Sichuan, Shaanxi and Gansu). It mentioned over 30 footwear brands. It mainly focused its studies on five major local sports footwear brands (LI-NING, Anta, Kangwei, Doublestar, Gweat) and five major international sports footwear brands (Nike, Adidas, Reebok, Puma and Converse). According to this research report, Adidas, Nike and LI-NING, in descending order, are the top three sports footwear brands in terms of overall brand equity in the PRC market.

COMPETITIVE ADVANTAGES

We believe that our competitive advantages are:

Our leading market position

The Directors believe that the LI-NING brand was one of the earliest domestic sports brands in the PRC and has grown significantly to become one of the leading sports brands in the PRC. We will strive to leverage our leading market position to increase our revenue and profitability in line with the rapidly-growing sporting goods industry in the PRC.

Our extensive sales network

We have developed an extensive distributorship and retail coverage in the PRC. We have a prominent network of franchised retail outlets operated by our distributors as well as our directly-managed retail outlets. As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. As at the same date, we operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands in the PRC.

Our network of franchised and directly-managed retail outlets has a wide geographical spread in the PRC, covering all the provinces and the municipalities directly under the central government. The easy accessibility of our products in many convenient retail locations serves to build brand loyalty and increases penetration among PRC consumers.

Our well-defined market positioning and comprehensive product offerings

We believe that LI-NING branded products are well-positioned and distinguished from our competitors by offering high quality and superior performance at prices below international brands.

SUMMARY

We offer a comprehensive range of sporting products, including specialised sporting, leisure and golf products. Some of our specialised sporting goods are designed to meet the needs of professional athletes. Our comprehensive product offerings cater to different sports-related consumer groups.

Our abundant sports marketing and sponsorship resources

We believe marketing and promotions are crucial to the success in the sporting goods industry. Our early entry into the PRC's sporting goods industry has secured our long-term relationship with the sports community in the PRC. Our sponsorship of major sports teams, sporting events and key athletes in the PRC have enabled us to create public confidence and passion for our products, and to achieve significant advertising and promotional impact.

Over the years, we have sponsored the Chinese delegation for the 1992, 1996 and 2000 Olympic Games as well as the 1998 Winter Olympic Games. We will also sponsor the Chinese delegation for the upcoming 2004 Olympic Games. Further, we have been a regular sponsor of various major Chinese national sports teams, including the Chinese Table Tennis Team, Chinese Diving Team, Chinese Gymnastic Team and Chinese Shooting Team. These four national teams accounted for 15 out of the total 28 gold medals won by the Chinese delegation in the 2000 Sydney Olympic Games. We believe that our sponsorship of such high profile and world champion Chinese sports teams, especially in sporting events such as the Olympic Games, will further enhance our public standing and secure customer loyalty in the PRC.

Our professional management team and motivated corporate culture

Mr. Li Ning (chairman of the Company and an executive Director), Mr. Zhang Zhi Yong (chief executive officer of the Company and an executive Director) and Mr. Chen Yi Hong (an executive Director) each has over 10 years of experience in the sporting goods industry in the PRC. Their experience and intimate knowledge of the sporting goods industry in the PRC are critical competitive advantages for our success.

Among our Directors, we are also supported by individuals with a wealth of experience in corporate, strategic, financial and investment management. For example, Mr. Tan Wee Seng (an executive Director, chief financial officer, qualified accountant and one of the joint company secretaries of the Company) has over 27 years of experience in financial management and business management with multinational corporations.

Through intensive training programmes, we aim to equip our management staff with versatile management skills and in-depth knowledge of the products and the industry. Through various incentive schemes, they are encouraged to dedicate their professional efforts to maintain our leading position in the PRC sporting goods industry. Our management team enables us to successfully apply international business models, industry-specific know-how and best practices in the PRC's fast evolving sporting goods market.

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GROWTH STRATEGIES

Our Directors expect that the 2008 Beijing Olympic Games will significantly raise the public interest for, and awareness of, sports and fitness in the PRC, and stimulate demand for sporting goods. We believe that as one of the leading sports brands in the PRC, the LI-NING brand will benefit from such demand. Our objective is to maintain our domestic market position by adopting the following growth strategies:

Reinforce our sales channels and distribution infrastructure

We believe that we currently have one of the most extensive sales channels for sporting goods in the PRC in terms of number of retail points (including both franchised and directly-managed retail outlets). Nevertheless, in preparation for the 2008 Beijing Olympic Games, it is expected that our main competitors will make investments and expand their sales channels in the PRC. It is therefore important for us to continue to expand our domestic sales channels. By extending the coverage of our sales channels and quality of our distribution infrastructure, we will also create momentum for our product development and brand enhancement. To achieve this, we intend to:

- increase the number of retail points (both franchised and directly-managed retail outlets) to a total of approximately 2,800, 3,200 and 3,500 by the end of 2004, 2005 and 2006, respectively, in order to correspond to the income growth in different regions. The anticipated growth of retail points in 2004 is 30.5% which is based on our actual implementation plan and is in line with the expected market growth of the PRC's branded sporting goods;
- improve the quality and service standard of our franchised and directly-managed retail outlets to boost our brand image and identity by:
 - increasing the average outlet space;
 - improving location of retail spaces;
 - modernising outlet image, format and decoration;
 - opening flagship stores in large cities such as Beijing, Shanghai and Guangzhou;
 - continuing to enhance the standard of our training system and service quality; and
- install electronic point-of-sales (EPOS) systems in each of our franchised and directly-managed retail outlets.

SUMMARY

Upgrade our product design, development and research platform

To counter the challenge of international competitors and maintain our leading market position, we plan to upgrade our product design, development and research platform. We also intend to make substantial investments to develop our own basic research capabilities. For distinct sports categories such as soccer, basketball and tennis, we aim to produce professional sporting goods for professional athletes using advanced technologies. In particular, we plan to:

- establish our own basic research team;
- establish a product design and development centre in Hong Kong to combine overseas talents in product design with local market knowledge in the PRC to launch new product series under a unified brand image and style; and
- cooperate with suppliers and manufacturers to use new materials and technologies to enhance the performance of our sporting goods.

Strengthen our brand awareness and loyalty

We believe that one of our most valuable assets is the unique image of the LI-NING brand as one of the leading sports brands in the PRC. We are committed to continue to invest and strengthen our brand to retain customer loyalty and promote customer preferences. To achieve this, we plan to:

- intensify our sports marketing and promotional campaigns (such as campaigns for the 2004 Athens Olympic Games);
- launch specialised footwear series for distinct sports categories such as soccer, basketball, tennis, running and fitness; and
- employ advertising strategies to increase mass appeal of our sporting goods for distinct sports categories such as soccer, basketball, tennis, running and fitness.

Enhance our supply chain management for faster response and better efficiency

We intend to enhance our supply chain management system for better efficiency and faster response to market changes by:

- upgrading our management information systems to connect our headquarters with all of our franchised and directly-managed retail outlets in order to:
 - provide daily data feedback on procurement, supplies and ultimate sales;
 - shorten reporting time; and
 - better control inventory risks and costs;

SUMMARY

- upgrading our information technology platform to be Internet and e-business compatible;
- enhancing our logistics support to cover distribution to all sales points; and
- reducing our procurement and production cycle to accept purchase orders on both a rolling and continual basis.

Develop our licenced international brands business and venture into other sports-related operations

We intend to utilise the full potential of our network in the sporting goods industry in the PRC to maximise our revenues and profitability. We believe that by managing and introducing foreign brands (such as the KAPPA brand) with special characteristics, styles and product niches into the PRC market, we can effectively leverage our position in the industry to develop diversified and robust income streams. We intend to expand our licenced international brand business and venture into other sports-related business, if opportunities arise. In particular, we plan to:

- expand the presence of the KAPPA brand in the PRC by increasing its retail coverage and promotional efforts;
- acquire the management rights or licences of other international brands for the PRC market; and
- explore opportunities to venture into other related businesses with synergies to our existing business through collaboration or acquisition.

SUMMARY

TRADING RECORD

The following is a summary of our audited combined results of operations during the Track Record Period, which are prepared on the assumption that our current corporate structure had been in existence throughout the periods under review. This summary is extracted from, and should be read in conjunction with, our combined financial information during the Track Record Period (“Financial Information”) set forth in the accountants’ report, the text of which is set forth in Appendix I to this prospectus. The Financial Information has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board.

	Year ended 31 December,		
	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover ⁽¹⁾	734,935	958,005	1,276,224
Cost of sales	<u>(447,736)</u>	<u>(528,148)</u>	<u>(670,305)</u>
Gross profit	287,199	429,857	605,919
Other revenue	7,263	7,126	8,146
Distribution expenses	(128,557)	(222,581)	(335,717)
Administrative expenses	(88,846)	(104,561)	(121,049)
Other operating expenses	<u>(11,858)</u>	<u>(6,494)</u>	<u>(38,190)</u>
Operating profit	65,201	103,347	119,109
Finance costs, net	<u>(6,111)</u>	<u>(7,392)</u>	<u>(4,546)</u>
Profit before taxation	59,090	95,955	114,563
Taxation	<u>(8,634)</u>	<u>(28,130)</u>	<u>(22,029)</u>
Profit after taxation	50,456	67,825	92,534
Minority interests	<u>(836)</u>	<u>(936)</u>	<u>1,426</u>
Profit for the year	<u><u>49,620</u></u>	<u><u>66,889</u></u>	<u><u>93,960</u></u>
Dividends	<u><u>17,182</u></u>	<u><u>23,970</u></u>	<u><u>65,772</u></u>
Basic earnings per Share (<i>RMB cents</i>) ⁽²⁾	<u><u>6.62</u></u>	<u><u>8.92</u></u>	<u><u>12.53</u></u>

(1) Our turnover represents the invoiced value for the sale of goods net of value added tax, rebates and discounts.

(2) The calculation of basic earnings per Share is based on our profit for the year during the Track Record Period and on the 750,000,000 Shares issued pursuant to the Reorganisation as detailed in Appendix VI to this prospectus, as if these Shares have been in issue on 1 January, 2001.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER, 2004

The following sets forth the profit forecast for the year ending 31 December, 2004:

Forecast combined profit after taxation and minority interests but before extraordinary items ⁽¹⁾	not less than RMB122.5 million
Forecast earnings per Share	
(a) fully diluted ⁽²⁾	not less than RMB12.42 cents (or HK11.72 cents)
(b) weighted average ⁽³⁾	not less than RMB14.07 cents (or HK13.27 cents)

- (1) The bases on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.
- (2) The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December, 2004 and assuming that our Shares had been listed on the Main Board since 1 January, 2004 and a total of 986,062,000 Shares were in issue during the entire year. The calculation assumes that the Over-allotment Option will not be exercised.
- (3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December, 2004 and assuming that a weighted average of 870,611,000 Shares expected in issue during the year. The calculation assumes that the Over-allotment Option will not be exercised.

OFFER STATISTICS

	Based on an Offer Price of HK\$1.76	Based on an Offer Price of HK\$2.23
Market capitalisation of our Shares ⁽¹⁾	HK\$1,735 million	HK\$2,199 million
Prospective price/earnings multiple		
(a) fully diluted ⁽²⁾	15.0 times	19.0 times
(b) weighted average ⁽³⁾	13.3 times	16.8 times
Unaudited pro forma adjusted net tangible asset value per Share ⁽⁴⁾	RMB0.81 (or HK\$0.76)	RMB0.92 (or HK\$0.87)

- (1) The calculation of market capitalisation is based on 986,062,000 Shares expected to be in issue following completion of the Share Offer and assuming no exercise of the Over-allotment Option.
- (2) The calculation of the prospective price/earnings multiple on a fully diluted basis is based on the forecast earnings per Share on a fully diluted basis at the respective offer prices assuming that the Over-allotment Option is not exercised.
- (3) The calculation of prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective offer prices assuming that the Over-allotment Option is not exercised.
- (4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Financial information – Unaudited pro forma adjusted net tangible assets" in this prospectus and on the basis of a total of 986,062,000 Shares expected to be in issue following completion of the Share Offer, and assuming that the Over-allotment Option is not exercised.

SUMMARY

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.995 (being the mid-point of our offer price range of HK\$1.76 to HK\$2.23 per Share), the adjusted net tangible asset value per Share will be increased to HK\$0.86 per Share, whilst the forecast earnings per Share on a pro forma fully diluted basis will be diluted to RMB11.97 cents (or HK11.30 cents).

USE OF NET PROCEEDS FROM THE NEW ISSUE

We intend to utilise the net proceeds from the New Issue to finance our future development plans, strengthen our capital base and improve our financial position. The net proceeds from the New Issue (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.995 per Share, being the mid-point of the stated range of the Offer Price of between HK\$1.76 and HK\$2.23 per Share) to us are estimated to be approximately HK\$440 million (HK\$512 million if the Over-allotment Option is exercised in full). We currently intend to use such net proceeds as follows:

- approximately HK\$100 million for the expansion and improvement of the coverage of our distributorship and retail network;
- approximately HK\$110 million for brand promotional and marketing activities;
- approximately HK\$15 million for establishing our basic product research capabilities, developing new product series and setting up our design and development centre in Hong Kong;
- approximately HK\$35 million for improving our management information systems and logistics operations;
- approximately HK\$40 million for acquisition and operation of management rights or licences of other international brands in the PRC market;
- approximately HK\$60 million for establishing a centralised operating headquarters in Beijing;
- approximately HK\$40 million for strategic acquisitions that are complimentary to our business (if suitable opportunities arise); and
- the remaining balance of approximately HK\$40 million as our general working capital.

In the event that the Over-allotment Option is exercised in full, we intend to use the additional net proceeds of approximately HK\$72 million as additional general working capital. To the extent that the net proceeds from the New Issue are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may place such funds in short-term deposits with banks and/or financial institutions for so long as it is in our best interests. We have at present not identified any strategic acquisition targets.

We may also re-allocate the use of proceeds should any of the above future development plans not be implemented. In such events, the Company will comply with the appropriate requirements under the Listing Rules. The Company will issue an announcement if there is any change in the use of proceeds.

SUMMARY

DIVIDEND POLICY AND PAST DIVIDENDS

Following the listing of our Shares on the Main Board, our Shareholders will be entitled to receive dividends declared by the Company. The Company intends to pay dividends by way of interim and final dividends. Our Directors do not intend to recommend any additional interim dividend in respect of the six months ended 30 June, 2004 but intend to recommend a final dividend for the whole year ending 31 December, 2004 at their discretion. Our Directors generally intend to declare and recommend dividends which would amount in total to not less than 30% of our distributable profit for the period subsequent to the Share Offer. The payment and amount of any dividends will be at the discretion of our Directors and will depend upon our earnings, financial conditions, cash requirements and availability, and other factors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or the timing of such payment.

We declared and paid dividends of approximately RMB17.2 million, RMB24.0 million and RMB65.8 million, respectively, in respect of each of the Track Record Periods. In addition, on 10 May, 2004, we declared and paid a special dividend of approximately RMB40.0 million before the Share Offer. Save as disclosed herein, no other dividend was declared by any member of our Group since the commencement of the Track Record Period. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

RISK FACTORS

We believe that there are certain risks involved in our operations; many of these risks are beyond our control. These risks can be categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the PRC; and (iv) risks relating to the Share Offer. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and operating results.

Risks relating to our business

- We are dependent on our PRC distributors and their operation of franchised LI-NING and KAPPA retail outlets.
- We face seasonal and timing fluctuations.
- We are dependent on our contract manufacturers.
- The KAPPA Licence Agreements with the BasicNet Group may not be renewed.
- We face possible infringement of our trademarks and other intellectual property rights, and counterfeiting of our products.
- We would be adversely affected by trademarks and intellectual property rights disputes or proceedings with others.
- There are defects in legal titles in respect of some of our leased properties.
- We are dependent on the renewal of leases or concessions for our retail outlets.

SUMMARY

- We depend on certain key executives in the conduct of our business.
- We may be unable to effectively manage our growth.
- We may not be able to make strategic acquisitions or to successfully integrate the acquired business in the future.
- Past dividends should not be used as a reference for our future dividend policy.
- Certain preferential tax treatment to which we are entitled may be subject to change.
- The interpretation of certain relevant PRC laws and regulations currently in force may be subject to change.

Risks relating to our industry

- We are dependent on the PRC economy and, in particular, the expected growth in the PRC consumer market.
- We operate in a competitive industry.
- We face changing operating conditions in the PRC consumer and retail market.
- We face inventory obsolescence.

Risks relating to the PRC

- Economic and political policies of the PRC government could affect our business.
- The PRC's legal system has not been fully developed and has inherent uncertainties.
- Changes in foreign exchange regulations may affect our ability to pay dividends or to satisfy other foreign exchange requirements.
- Fluctuations in the exchange rate of Renminbi may materially and adversely affect our operations and financial results.
- Acts of God, acts of war and epidemics which are beyond our control may cause damages, loss or disruptions to our business.

Risks relating to the Share Offer

- An active trading market for our Shares may not develop and the trading price for our Shares may fluctuate significantly.
- Issuance of Shares under the Pre-IPO Share Option Scheme and the Share Option Scheme to employees will have dilution effect and may affect our profitability.
- Sale of a substantial number of our Shares in the public market after the Share Offer could adversely affect the prevailing market price of our Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“ABC Assets”	ABC Assets Holding Limited, a company incorporated in the BVI, and one of the Vendors who offers for sale 3,466,000 Sale Shares. ABC Assets Holding Limited is owned by an Independent Third Party
“Alpha Talent”	Alpha Talent Management Limited, a limited liability company incorporated in the BVI on 2 January, 2004 and is established and beneficially owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Employee Share Purchase Scheme
“Application Form(s)”	the WHITE and YELLOW application form(s) or where the context so requires, any of them which is used in relation to the Hong Kong Public Offer
“Articles”	our articles of association referred to under “Written resolutions of the sole Shareholder passed on 5 June, 2004” in Appendix VI to this prospectus
“Asia Lead”	Asia Lead Management Ltd., a limited liability company incorporated in the BVI on 6 September, 2002
“associates”	has the meaning ascribed thereto under the Listing Rules
“Basic Properties”	Basic Properties B.V., a company incorporated and legally existing under the laws of The Netherlands and a member of the BasicNet Group
“BasicNet”	BasicNet S.p.A., a company incorporated and legally existing under the laws of Italy and listed on the Milan Stock Exchange
“BasicNet Group”	BasicNet and companies or entities ultimately controlled in whole or in part by BasicNet
“Beijing Dong Xiang”	北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.), a limited liability company established in the PRC on 18 April, 2002 and an indirect subsidiary of the Company in which the Company owns an equity interest of 80%
“Beijing Edo Sports”	北京一動體育發展有限公司 (Beijing Edo Sports Development Co., Ltd.), a limited company established in the PRC, which is owned as to 80% by Shanghai Ning Sheng and as to 20% by Mr. Li Zhi Qiang (the General Manager of Beijing Edo Sports and a minority shareholder of the Company)
“Beijing Li Ning”	北京李寧體育用品有限公司 (Beijing Li Ning Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 4 November, 1997 and an indirect wholly-owned subsidiary of the Company
“Board”	our board of Directors

DEFINITIONS

“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CDH”	CDH China Fund, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands. CDH is a private equity fund focusing on generating long-term capital appreciation by making equity and equity-related investments in established companies with substantial operations in the PRC
“Champion Link”	Champion Link Capital Limited, a company incorporated in the BVI and is legally owned 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 Ginkgo Trust. Both of the Palm Trust and the Ginkgo Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun
“chief executive”	our chief executive (as defined in the SFO)
“China Sports”	China Sports Investment Ltd., a limited liability company incorporated in the BVI on 30 May, 2002
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Li Ning Company Limited, a limited liability company incorporated in the Cayman Islands on 26 February, 2004

DEFINITIONS

“concessions”	the concession counters or sales areas operated or occupied by us or other parties in various department stores or shopping malls in the PRC on concessionary basis
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of the Company, means Mr. Li Ning, Mr. Li Chun (the brother of Mr. Li Ning), Ms. Li Ying (the sister of Mr. Li Ning) and her husband Mr. Zhao Jian Guo through their interests in Victory Mind Assets, Champion Link, Double Essence, Alpha Talent and their respective associates, which in aggregate holding approximately 46.294% of the issued share capital of the Company immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised)
“Covenantors”	Victory Mind Assets, Champion Link, Dragon City Management Limited, Double Essence, Alpha Talent and the Controlling Shareholders
“DBS Asia” or “Global Coordinator” or “Sponsor”	DBS Asia Capital Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulation activities (as defined under the SFO), acting as the global coordinator, bookrunner, lead manager of the Share Offer and sponsor to the Listing
“Director(s)”	our director(s) as at the date of this prospectus
“Double Essence”	Double Essence Limited, a company incorporated in the BVI and is beneficially owned by Ms. Li Ying (the sister of Mr. Li Ning) and her spouse, Mr. Zhao Jian Guo, on an equal basis
“Edosports Sales Companies”	the 13 limited liability companies established in the PRC and indirect wholly-owned subsidiaries of the Company engaged in the retail sales of LI-NING products comprising: 鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.) (established on 25 June, 1998), 廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.) (established on 6 August, 1998), 長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.) (established on 26 August, 1998), 南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.) (established on 29 July, 1998), 瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.) (established on 10 June, 1999), 濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.) (established on 24 June, 1999), 武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.) (established on 2 June, 1999), 杭州一動體育用品銷售有限公司 (Hangzhou Edosports Goods Sales Co., Ltd.) (established on 5 August, 1999), 北京李寧體育用品銷售有限公司 (Beijing Li Ning Sporting Goods Sales Co., Ltd.) (established on 1 November, 1999),

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	<p>石家莊一動體育用品銷售有限公司 (Shijiazhuang Edosports Goods Sales Co., Ltd.) (established on 12 November, 1999),</p> <p>上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.) (established on 8 August, 2000),</p> <p>天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.) (established on 14 December, 1999),</p> <p>南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.) (established on 15 April, 2003)</p>
“Employee Share Purchase Scheme”	the employee share purchase scheme set up by Mr. Li Ning to reward key employees who have contributed to our achievement, which was adopted by Alpha Talent on 5 June, 2004 pursuant to which options to purchase the Shares held by Alpha Talent may be granted to our eligible employees. Further information as to the grantee of such options are set forth in the paragraph headed “Employee share purchase scheme set up by Mr. Li Ning” in Appendix VI to this prospectus
“Foshan Gymnastics”	佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastics School Service Co., Ltd.), a limited liability company established in the PRC on 31 October, 1996 and an indirect wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Group” or “we” or “our” or “us”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the business operated by such subsidiaries
“Guangdong Jianlibao Group”	廣東健力寶集團有限公司 (Guangdong Jianlibao Group Co., Ltd.), a limited liability company established in the PRC
“Guangdong Li Ning”	廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.), formerly known as 廣東健力寶運動服裝有限公司 (Guangdong Jianlibao Sportswear Co., Ltd.), as the context requires, is a limited liability company initially established as a sino-foreign equity joint venture company in the PRC on 4 December, 1989 and re-registered as a domestic enterprise in the PRC on 13 December, 2001 and a indirect subsidiary of the Company in which the Company owns an equity interest of 80%
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Li Ning”	Li Ning Sports (Hong Kong) Co., Ltd., a company incorporated in Hong Kong on 19 March, 2003 and an indirect wholly-owned subsidiary of the Company
“Hong Kong Offer Shares”	the 24,652,000 new Shares comprised in the New Shares initially offered for subscription under the Hong Kong Public Offer, representing approximately 10% of the initial number of the Offer Shares, subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares to members of the public in Hong Kong, for subscription at the Offer Price payable in full upon application, on and subject to the terms and conditions set forth in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer whose names are set forth in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“ICH”	ICH Limited, a company incorporated in the Cayman Islands, and one of the Vendors who offer for sale 6,988,000 Sale Shares. ICH Limited is owned by Independent Third Parties
“Independent Third Parties” or “Independent Third Party”	a person(s) or company(ies) which is/are independent of our members, the directors, the Controlling Shareholders, the Substantial Shareholders and the chief executive (as such term is defined in the Listing Rules) of the Company or its subsidiaries and their respective associates
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters, acting on behalf of the Company, at the Offer Price with professional, institutional, corporate and other investors, particulars of which are set forth in the section headed “Structure and conditions of the Share Offer” in this prospectus
“International Placing Shares”	221,864,000 Offer Shares comprising 211,410,000 New Shares and 10,454,000 Sale Shares initially offered for subscription and purchase under the International Placing, representing 90% of the initial number of the Offer Shares, subject to the Over-allotment Option and re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“International Underwriters”	the underwriters of the International Placing whose names are set forth in the section headed “Underwriting – International Underwriters” in this prospectus

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“KAPPA brand” or “KAPPA”	the KAPPA and ROBE DI KAPPA trademarks and logos registered in the name of Basic Trademark S.A. and licenced to us pursuant to the KAPPA Licence Agreements as more particularly set forth in the section headed “Business – Intellectual property rights” in this prospectus
“KAPPA Licence Agreements”	(i) Distribution and licence agreement dated 14 February, 2002 between Basic Properties and Beijing Li Ning (replaced by Beijing Dong Xiang pursuant to the consent of assignment dated 31 December, 2002); (ii) Know-how licence agreement dated 14 February, 2002 between BasicNet and Beijing Li Ning (replaced by Beijing Dong Xiang pursuant to the supplementary agreement to the know-how licence agreement dated 31 December, 2002); and (iii) Trademark licence contract dated 15 July, 2003 between Basic Properties and Beijing Dong Xiang for the sole purpose of facilitating registration of the licensed trademarks
“Latest Practicable Date”	9 June, 2004, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“LI-NING brand” or “LI-NING”	the LI-NING trademarks and logos registered in the name of members of the Group as more particularly set forth in the paragraph headed “Intellectual property rights” in Appendix VI to this prospectus
“Listing”	the listing of our Shares on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“New Issue”	the issue of New Shares to be offered under the Share Offer
“New Shares”	the 236,062,000 new Shares to be offered under the New Issue and, where relevant, the Over-allotment Shares
“Offer for Sale”	the offer for sale of the Sale Shares by the Vendors under the International Placing
“Offer Price”	the offer price per Offer Share (excluding brokerage of 1%, Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% imposed by the SFC payable thereon), which will be not more than HK\$2.23 and is expected to be not less than HK\$1.76, such price to be determined on the Price Determination Date

DEFINITIONS

“Offer Shares”	the International Placing Shares and the Hong Kong Offer Shares
“Other Founding Shareholders”	the shareholders of the Company whose names are set forth in note 6 under the section headed “Business – Shareholding corporate and operating structure” in this prospectus
“Over-allotment Option”	the option granted by the Company to the International Underwriters, exercisable by DBS Asia at any time prior to the date falling 30 days after the last day for lodging applications under the Hong Kong Public Offer, subject to the terms of the Underwriting Agreement, to require the Company to issue the Over-allotment Shares at the Offer Price to cover over-allocations in the International Placing and/or the obligations of DBS Asia to return securities borrowed under the Stock Borrowing Agreement
“Over-allotment Shares”	up to an aggregate of 36,976,000 new Shares to be issued pursuant to the exercise of the Over-allotment Option representing approximately 15% of the number of Shares initially available under the Share Offer
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	our pre-IPO share option scheme conditionally adopted on 5 June, 2004, the principal terms of which are set forth under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to this prospectus
“Price Determination Date”	the date on which the Offer Price of the Offer Shares is to be fixed by the Global Coordinator (on behalf of the Underwriters), the Vendors and us, which is expected to be on or before Monday, 21 June, 2004 (Hong Kong time), and in any event not later than Friday, 25 June, 2004 (Hong Kong time)
“Private Equity Investments Agreements”	(i) the subscription agreement in respect of shares in RealSports dated 7 January, 2003 entered into amongst China Sports and Asia Lead, the then prevailing shareholders of Shanghai Li Ning and RealSports, and Tetrad and CDH; (ii) the lock-up agreement in respect of interests in China Sports and indirect interests in Shanghai Li Ning dated 7 January, 2003 entered into amongst China Sports, the shareholders of China Sports, Tetrad and CDH; (iii) the lock-up agreement in respect of interests in Asia Lead and indirect interests in Shanghai Li Ning dated 7 January, 2003 entered into amongst Asia Lead, the shareholders of Asia Lead, Tetrad and CDH; and (iv) other relevant related agreements

DEFINITIONS

“RealSports”	RealSports Pte Ltd., a limited liability company incorporated in the BVI on 8 October, 2002 and a direct wholly-owned subsidiary of the Company
“Reorganisation”	our corporate reorganisation in preparation for the Listing, particulars of which are set forth in the paragraph headed “Corporate reorganisation” in Appendix VI to this prospectus
“retail outlets”	the retail stores and concessions
“retail stores”	the retail stores operated by the Group or other parties in the PRC by way of property ownership or leasing arrangements
“Sale Shares”	the 10,454,000 Shares being offered for sale by the Vendors at the Offer Price under the International Placing
“SARS”	severe acute respiratory syndrome
“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Edosports”	上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.), a limited liability company established in the PRC on 9 July, 2001 and an indirect wholly-owned subsidiary of the Company
“Shanghai Hu Bu”	上海狐步體育用品有限公司 (Shanghai Hu Bu Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 20 April, 2000 and an indirect wholly-owned subsidiary of the Company
“Shanghai Hui Peng”	上海滙朋體育用品有限公司 (Shanghai Hui Peng Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 26 July, 2001
“Shanghai Jin Hui”	上海進滙商貿有限公司 (Shanghai Jin Hui Commerce and Trade Co., Ltd.), a limited liability company established in the PRC on 6 August, 2001
“Shanghai Lei De”	上海雷德體育發展有限公司 (Shanghai Lei De Sports Development Co., Ltd.), a limited liability company established in the PRC, which is owned as to 49.1% by Mr. Chen Yi Hong, 41% by Mr. Chen Yi Liang (a brother of Mr. Chen Yi Hong) and 9.9% by Shanghai Ning Sheng
“Shanghai Li Fa”	上海力發體育用品有限公司 (Shanghai Li Fa Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 12 August, 1997

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“Shanghai Li Ning”	李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited), formerly known as 上海李寧體育用品有限公司 (Shanghai Li Ning Sporting Goods Co., Ltd.), as the context requires. 上海李寧體育用品有限公司 (Shanghai Li Ning Sporting Goods Co., Ltd.), an indirect wholly-owned subsidiary of the Company, was initially established as a domestic enterprise with limited liability on 25 August, 1997, and changed its name to 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited) and was converted to a wholly foreign-owned enterprise on 11 December, 2002
“Shanghai Ning Sheng”	上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), formerly known as 上海李寧企業管理有限公司 (Shanghai Li Ning Corporate Management Co., Ltd.), a limited liability company established in the PRC on 12 August, 1997
“Shanghai Shao Hao Sports”	上海少昊體育用品有限公司 (Shanghai Shao Hao Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 18 December, 2001 and an indirect wholly-owned subsidiary of the Company
“Shanghai Yue Ao”	上海悅奧體育用品有限公司 (Shanghai Yue Ao Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 5 March, 2003 and an indirect wholly-owned subsidiary of the Company
“Share Offer”	the International Placing and the Hong Kong Public Offer
“Share Option Scheme”	our share option scheme conditionally adopted on 5 June, 2004, the principal terms of which are set forth in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Stock Borrowing Agreement”	the stock borrowing agreement dated 14 June, 2004 entered into between Victory Mind Assets and DBS Asia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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“Tetrad”	Tetrad Ventures Pte Ltd, a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd. It 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.
“Tianjin Hua Bao Wei”	天津華寶威體育用品有限公司 (Tianjin Hua Bao Wei Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 12 July, 2001
“Tianjin Long Hua”	天津龍華體育用品有限公司 (Tianjin Long Hua Sporting Goods Co., Ltd.), a limited liability company established in the PRC on 12 July, 2001
“Track Record Period(s)”	the three years ended 31 December, 2003
“U.S.”	the United States of America
“Underwriters”	the International Underwriters and the Hong Kong Underwriters
“Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Share Offer entered into on 14 June, 2004 between, among others, us, the executive Directors, the Vendors, the Controlling Shareholders, DBS Asia and the Underwriters particulars of which are set forth in the section headed “Underwriting” in this prospectus
“Vendors”	ABC Assets and ICH, each of them offers for sale 3,466,000 Sale Shares and 6,988,000 Sale Shares, respectively, under the Offer for Sale
“Victory Mind Assets”	Victory Mind Assets Limited, a limited liability company incorporated in the BVI and, following completion of the Reorganisation, beneficially owned as to 62.106% by Mr. Li Ning and as to 37.894% by Mr. Li Chun (the brother of Mr. Li Ning)
“WTO”	World Trade Organisation
“%”	per cent.
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq.ft.”	square foot/feet

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“sq.m.” square metre/metres

“US\$” United States dollars, the lawful currency of the U.S.

The English names of the PRC entities mentioned in this prospectus are translation from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.

Unless the context requires otherwise, translation of HK\$ into RMB is made in this prospectus, for illustration purpose only, at the rate of HK\$1.00 = RMB1.06.

No representation is made that any amount in HK\$ or RMB could have been or could be converted at the above rates or at any other rates or at all.

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements that state our intentions, beliefs, expectations or predictions for the future, in particular under the sections headed “Business”, “Future plans and use of proceeds from the New Issue”, and “Financial information” in this prospectus. The forward-looking statements include, without limitation, statements relating to future developments in the relevant industry as well as the industry outlook generally, future development of our business, our business strategies and plans of operation, and our dividend policy.

In some cases, we use words such as “believe”, “intend”, “anticipate”, “estimate”, “project”, “forecast”, “plan”, “potential”, “will”, “may”, “should” and “expect” and similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our strategies, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section headed “Risk factors” and elsewhere in this prospectus, including in conjunction with the forward-looking statements included in this prospectus. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Prospective investors of the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with investment in the Company. Our business, financial condition or results of operations could be materially affected by any of these risks.

RISKS RELATING TO OUR BUSINESS

We are dependent on our PRC distributors and their operation of franchised LI-NING and KAPPA retail outlets

We derive a substantial portion of our turnover from our PRC distributors who operate franchised LI-NING and KAPPA retail outlets. As at 31 May, 2004, there were over 2,200 franchised LI-NING and KAPPA retail outlets operated by our distributors in the PRC. For each of the Track Record Periods, turnover derived from PRC distributor sales accounted for approximately 77.2%, 78.4% and 78.0% of our total turnover, respectively.

Although we supervise our franchised retail outlets, there can be no assurance that such franchising arrangements with our distributors will be sufficient to avoid our brands being associated with lower quality or inappropriate service. Any such association could damage our brands and reputation and could have a material adverse effect on our business, operating results and financial condition.

We face seasonal and timing fluctuations

Our sales are subject to seasonal fluctuation during the year. Generally, we record higher sales in August, September and December and lower sales in May, but they may vary considerably from time to time as a result of change in seasonal demand. As such, any unpredicted and unusual change in consumer demand or weather patterns could adversely affect our turnover.

Since we operate largely on a seasonal cycle, if we are unsuccessful in selecting the right product mix for a particular season, sales for that entire season could be significantly affected. In addition, any consequent reputational damage could have a negative impact on our sales in future seasons.

We believe the results of our operations may also fluctuate significantly as a result of a number of other factors, including merchandise mix and the timing of advertising and promotional campaigns. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied upon as indicators of our performance.

We are dependent on our contract manufacturers

We subcontract the processing and manufacturing of the majority of our sports apparel and all of our sports footwear and accessories to independent contract manufacturers in the PRC. For each of the Track Record Periods, approximately 92.9%, 93.7% and 93.4% of our products in terms of turnover were manufactured by such contract manufacturers, respectively.

RISK FACTORS

Although we maintain good business relationships with our contract manufacturers, there can be no assurance that our business and operations would not be adversely affected if there were any disruption in production or delivery by these contract manufacturers. Although we impose stringent quality controls on our products, there can be no assurance that the quality of products produced by our contract manufacturers can be maintained up to our required standards. Any failure in quality of the goods manufactured by our contract manufacturers and sold under our brand may have an adverse effect on our business, reputation and financial condition.

The KAPPA Licence Agreements with the BasicNet Group may not be renewed

The licence granted by the BasicNet Group to us for use of the KAPPA brand is for a term up to 31 December, 2007, which may be renewed for a further term of five years. Although the KAPPA Licence Agreements may be further renewed, the terms of which have been set forth in the section headed “Business – Intellectual property rights – KAPPA brand” in this prospectus, there is no assurance that the KAPPA Licence Agreements will be continued or renewed by the BasicNet Group on expiry or on terms and conditions which are acceptable to us. Sales of KAPPA branded products began in July 2002. For each of the two years ended 31 December, 2003, sales derived from KAPPA products accounted for approximately 1.4% and 3.1% of our total turnover, respectively. Any failure to renew the KAPPA Licence Agreements or if are not continued for whatever reason, our business, operating results and financial condition may be adversely affected.

We face possible infringement of our trademarks and other intellectual property rights, and counterfeiting of our products

We believe our trademarks and other intellectual property rights are important to our success and competitive position. Therefore, we have taken great care in registering trademarks which are used for the marketing and sale of our products, details of which are set forth in the paragraph headed “Intellectual property rights” in Appendix VI to this prospectus. We have also taken necessary steps to establish and protect our trademarks and intellectual property rights in the PRC and in all our major international markets.

We believe the quality of our products is critical to our success. We take great efforts to ensure that all products sold by us are of the highest quality. Our efforts to sell quality products may be undermined by the sale of counterfeit goods by unauthorised parties. The counterfeiting of our products in the PRC may adversely affect our reputation, operating results and financial condition.

We are not aware of any material violations or infringements of our trademarks and intellectual property rights at present. Nevertheless, there can be no assurance that the actions taken by us will be adequate to prevent brand infringement, product imitation and counterfeit by others. Such events could adversely affect our reputation, operating results and financial condition in the future.

We would be adversely affected by trademarks and intellectual property rights disputes or proceedings with others

The use of our trademarks and intellectual property rights in countries in which similar trademarks and intellectual property rights are already registered or used may constitute infringement of such third party intellectual property rights. At present, we are not aware of any such violations or infringements.

RISK FACTORS

There can be no assurance that there will not be such disputes or legal proceedings in the future. To the extent that such legal proceedings are costly and/or we are not able to succeed in such legal proceedings, our business, reputation and ability to expand our business operations into other countries may be adversely affected.

There are defects in legal titles in respect of some of our leased properties

As at 31 May, 2004, there were defects in the legal titles of 12 leased properties out of our total of 161 leased properties in the PRC, all of which cannot obtain proper property title documents to the relevant properties. These leased properties with defects in the legal titles are used for retail stores and office purposes. During each of the Track Record Periods, turnover contributed by the aforesaid retail stores represented less than 1% of our total turnover in the respective years.

Our PRC legal advisers are unable to ascertain whether the parties designated as landlords in these lease contracts are the parties with the lawful right to execute the lease contracts in question, whether such parties have the right to let or sub-let the properties in question, or whether they can assume duties and responsibilities as landlords under such lease contracts. For these reasons, our PRC legal advisers cannot ascertain whether such lease contracts are valid and enforceable or whether we are protected by PRC law when utilising such properties. In the absence of proper legal titles, the relevant lease contracts may not be valid or enforceable.

In the event that there is a dispute to the legal title of any of the affected leased properties, the retail store operating on such premises might have to be evicted or closed down and we might suffer losses due to prepayments and deposits paid for such affected leased property. As at 31 May, 2004, the net book value of the prepayments and rental deposits attributable to these affected leased properties amounted to approximately RMB0.2 million.

We are dependent on the renewal of leases or concessions for our retail outlets

We rely on leased premises for all retail stores operated by us. We also rely on concessionary arrangements for all concessions operated by us. As at 31 May, 2004, we leased over 100 premises in the PRC for our retail stores from Independent Third Parties. As at 31 May, 2004, we had 199 concessions with department stores and shopping malls, all being Independent Third Parties. For each of the Track Record Periods, turnover derived from our concessions and retail stores sales accounted for approximately 22.2%, 19.6% and 19.1% of our total turnover, respectively.

There is no assurance that each of these leases or concessionary arrangements will be renewed upon expiry or on terms and conditions that are acceptable to us. If such leases or such concessionary arrangements cannot be renewed, we will have to find other appropriate premises or department stores and this may have an adverse effect on our business, operating results and financial condition should the new premises found not be as suitable as the existing leased premises. Alternatively, if the existing leases can only be renewed on less favourable terms, this will increase our cost of operation and thus our business, operating results and financial condition would be adversely affected.

We depend on certain key executives in the conduct of our business

We believe the success of our business depends to a significant extent upon the continued services of our executive officers and other key management, in particular, Mr. Li Ning, Mr. Zhang Zhi Yong, Mr. Tan Wee Seng and Mr. Chen Yi Hong, our executive Directors, and Mr. Qin Da Zhong, the general manager of Beijing Dong Xiang. We have incentive schemes and share

RISK FACTORS

option schemes which are designed to retain key employees. There is no assurance that we will be successful in retaining or hiring qualified management personnel. As such, any loss of our key senior management staff or our inability to hire or retain qualified personnel would have an adverse impact on our business operations.

We may be unable to effectively manage our growth

We have been expanding our business rapidly and intend to continue to do so either through organic growth or through acquisition of other related businesses. Such expansion may place a significant strain on our managerial, operational and financial resources. We will need to manage our growth effectively, which may entail devising and effectively implementing business plans, training and managing our growing workforce, managing our costs and implementing adequate control and reporting systems in a timely manner. We cannot give assurance that we will be successful in managing our growth. Our failure to do so could affect our success in executing our business plan and adversely affect our business, operating results and financial condition.

We may not be able to make strategic acquisitions or to successfully integrate the acquired business in the future

One element of our growth strategy is to make strategic acquisitions in other related businesses. While we believe that relevant acquisition opportunities in the PRC and overseas are available, we cannot be sure that we can identify suitable acquisition candidates in the future, and we are likely to face competition for attractive acquisition opportunities. Further, we cannot assure that we will be successful in integrating or assimilating any acquired business in the future.

Past dividends should not be used as a reference for our future dividend policy

For each of the Track Record Periods, members of our Group declared and paid dividends of approximately RMB17.2 million, RMB24.0 million and RMB65.8 million, respectively, representing approximately 34.6%, 35.8% and 70.0% of our profit attributable to shareholders during each of the periods. In addition, on 10 May, 2004, we declared and paid a special dividend of approximately RMB40.0 million before the Share Offer. Whilst we intend to make dividend payments in the future, the amount of dividends to be declared and paid will be subject to, among others things, the full discretion of our Board, taking into consideration the amount of our earnings, financial position, cash requirements and availability, the provisions of the applicable laws and regulations and other relevant factors. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared and paid by us in the future.

Certain preferential tax treatment to which we are entitled may be subject to change

Certain of our subsidiaries located in special economic zones in the PRC, including Shanghai Li Ning, Shanghai Hu Bu, Shanghai Shao Hao Sports, Shanghai Yue Ao, Shanghai Edosports, are entitled to a preferential income tax treatment of 15%. Otherwise, business enterprises in the PRC are, in general, subject to enterprise income tax at the rate of 33%.

There is no assurance that the existing PRC income tax law, its application or its interpretation will remain in effect or will not be subject to change, in which case we may be required to pay the higher income tax rate generally applicable to PRC companies, which is currently 33%, or such other rate as is required by the PRC law. To the extent that there are any such changes, our profitability may be adversely affected.

RISK FACTORS

The interpretation of certain relevant PRC laws and regulations currently in force may be subject to change

Our PRC legal advisers have confirmed that the cross shareholding structure within our Group does not constitute any violation of the relevant PRC laws and regulations currently in force. However, the relevant PRC laws or regulations may be subject to change or different interpretation. In such event, we may have to reorganise our Group structure, which may have adverse effect on our operation and financial condition.

RISKS RELATING TO OUR INDUSTRY

We are dependent on the PRC economy and, in particular, the expected growth in the PRC consumer market

As we derive substantially all of our turnover from PRC domestic sales, the success of our business depends on the conditions and the expected growth in the PRC consumer market, which in turn depends on the conditions and the expected growth in the macro-economy and individual income levels of the PRC. We believe that consumer spending habits are adversely affected during a period of downturn recession in the economy or uncertainties regarding future economic prospects could also affect consumer spending habits which may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including us.

Although various parties have projected substantial growth in the PRC economy, there can be no assurance that projected growth rates for the PRC economy and in turn the PRC consumer market, including those described in the sector headed “Industry overview” in this prospectus, will be realised. Any future slowdowns or declines in the PRC economy or consumer spending would adversely affect our business, operating results and financial condition.

We believe our success also depends on our ability to originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. There can be no assurance that any player within the sporting goods industry, including us, will be able to continue to develop appealing products or successfully meet constantly changing consumer demands and product trends. This could adversely affect consumer and retail acceptance of our products and result in an accumulation of obsolete inventory, brand image problems and poor operating results.

We operate in a competitive industry

We believe that the sporting goods industry is highly competitive in the PRC and on a worldwide basis. All industry players compete with one another based on, among other things, brand loyalty, product variety, product design, product quality and price. There is no assurance that we will be able to compete with others in the future in light of the changing and competitive market environment. Increased competition in the industry may reduce our sales, prices and margins and adversely affect our brand loyalty and results of operations.

We face changing operating conditions in the PRC consumer and retail market

The consumer and retail market may be affected by the changing operating conditions in the PRC. With accession of the PRC to the WTO, changes and developments in the consumer and retail market may be volatile and unpredictable. For instance, the reduction in tariffs on foreign products after the liberalisation of the PRC market and further entry of international brands may intensify the competition in the PRC market. This may have a material adverse impact on our business, operating results and financial condition.

RISK FACTORS

We face inventory obsolescence

We believe that the sporting goods industry and the demand of customers are ever-changing, the risk of inventory obsolescence is usually faced by all industry players, including us. For each of the Track Record Periods, in respect of obsolete and slow moving inventories, we recorded a provision of approximately RMB2.7 million, a write-back of provision of approximately RMB0.9 million and a provision of approximately RMB11.9 million, respectively. Any increase in the amount of obsolete inventories may adversely affect our financial results and financial condition.

RISKS RELATING TO THE PRC

Economic and political policies of the PRC government could affect our business

Substantially all of our assets are located in the PRC and substantially all of our revenues are derived from our operations in the PRC. Accordingly, our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC.

The PRC's economy has traditionally been centrally planned, with a series of economic plans promulgated and implemented by the PRC government. Over the past twenty years, the PRC government has been reforming the economic and political systems in the PRC moving toward a more market-oriented economy. Such reforms have resulted in significant economic and social development. Many of the reforms are unprecedented and are expected to be refined and improved upon while political, economic and social factors may also lead to further readjustment. The refinement and readjustment process, however, may not always have a positive effect on our business, operating results and financial condition.

While the PRC's economy has experienced significant growth in the recent years, growth has been uneven across both geographic regions and the various sectors of the economy. The PRC government plays a significant role in China's economic growth and has in the past implemented various measures to encourage economic development, such as changes in monetary policies, interest rate policies, tax regulations or policies and regulations affecting particular industries and sectors of the economy.

There is no assurance that the PRC government will continue to pursue economic reforms. The economic policies or measures adopted by the PRC government may not always have a positive effect on us. Changes in the economic and political environment in the PRC and policies adopted by the PRC government to regulate its economy may adversely affect our business, operating results and financial condition in a material aspect.

The PRC's legal system has not been fully developed and has inherent uncertainties

The PRC's legal system is based on written statutes. Prior legal decisions and judgments have limited precedential value. The PRC is still in the process of developing a comprehensive statutory framework and its legal system is still considered to be underdeveloped in comparison with legal system in some western countries. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. Since then, there has been a tendency in legislation towards giving increasing protection to foreign investors and significant progress has been made in the legal system of the PRC.

Despite significant improvement in its developing legal system, however, the PRC does not have a comprehensive system of laws. The enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on our business and thereby adversely affect our business operations.

RISK FACTORS

Changes in foreign exchange regulations may affect our ability to pay dividends or to satisfy other foreign exchange requirements

We rely on our revenues which are substantially derived in Renminbi to pay dividends or to satisfy other foreign exchange requirements.

Renminbi is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control (the “Exchange Regulations”) have been issued by the PRC government which are designed to allow a degree of convertibility of Renminbi. Under the Exchange Regulations, foreign investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Under the current foreign exchange control system, there is no absolute guarantee that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

Fluctuations in the exchange rate of Renminbi may materially and adversely affect our operations and financial results

The value of Renminbi against other foreign currencies is subject to changes in the PRC government’s policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People’s Bank of China, which are quoted daily based on the previous day’s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of Renminbi to Hong Kong and US dollars generally have been stable.

However, there can be no assurance that Renminbi will not become volatile against other foreign currencies or that Renminbi will not be devalued. There can be no assurance that future movements in the exchange rates of Renminbi and other currencies will not have an adverse effect on our business, operating results and financial condition.

Acts of God, acts of war and epidemics which are beyond our control may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, operating results and financial conditions may be adversely affected in a material respect if such natural disasters occur.

Epidemics threaten people’s lives and may adversely affect their livelihoods as well as living and consumption patterns. For example, the outbreak of SARS in 2003 and the outbreak of avian flu in 2004 in Asia had an adverse impact on the economy of the PRC and other parts of Asia. The occurrence of an epidemic is beyond our control and there is no assurance that such outbreak will not happen again. Any epidemic occurring in areas in which we operate, or even in areas in which we do not operate, may adversely affect our business, operating results and financial condition in a material respect.

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Acts of war and terrorists attacks may cause damage or disruption to us, our employees, our facilities, our distribution channels, our markets and our customers, any of which could materially impact our turnover, cost of sales, overall results and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause our business to suffer in ways that it cannot currently predict. For example, our present geographical focus on the PRC may make us vulnerable in the event of increased tension or hostilities involving North Asia, such as North Korea.

RISKS RELATING TO THE SHARE OFFER

An active trading market for our Shares may not develop and the trading price for our Shares may fluctuate significantly

Prior to the Listing, there has been no public market for the trading of our Shares. The Offer Price may not be indicative of the price at which our Shares will trade on the Main Board after the Listing. After the Listing, the price and trading volume of our Shares will be determined in the market place and may be volatile. In addition, there is no assurance that an active trading market for our Shares will develop, or, if it does develop, that it will be sustained after the Listing, or that the market price of our Shares will not decline below the Offer Price.

The trading price of our Shares could also be subject to significant volatility in response to, among other factors:

- investors' perceptions of us and our future business plans;
- variations in our operating results;
- changes in our pricing policy as a result of the presence of competitors;
- changes in our senior management personnel; and
- general economic and other factors in the PRC and our other principal markets.

Issuance of Shares under the Pre-IPO Share Option Scheme and the Share Option Scheme to employees will have dilution effect and may affect our profitability

Issuance of Shares under the Pre-IPO Share Option Scheme and the Share Option Scheme will cause dilution to the earnings per Share and net asset value per Share because of the increase in the number of Shares outstanding after the issuance.

Under International Financial Reporting Standards, the cost of shares granted to employees should be charged to the profit and loss accounts and the issue of new Shares to employees should be expensed at fair value (i.e. at market price), which will reduce our profitability.

Sale of a substantial number of our Shares in the public market after the Share Offer could adversely affect the prevailing market price of our Shares

Immediately after completion of the Share Offer and assuming no exercise of the Over-allotment Option, the Company will have 986,062,000 Shares in issue, of which 246,516,000 Shares or 25% of the outstanding issued share capital of the Company will be publicly held by investors participating in the Share Offer and 739,546,000 Shares, or 75% of the outstanding

RISK FACTORS

issued share capital of the Company will be held by our existing Shareholders. The Offer Shares, as well as Shares held by Tetrad and CDH (which in aggregate will hold 184,680,000 Shares or 18.7% of the outstanding issued share capital of the Company immediately after completion of the Share Offer), will be eligible for immediate resale in the public market in Hong Kong without restriction. The Shares held by Victory Mind Assets, Champion Link, Double Essence, Alpha Talent and the Other Founding Shareholders (which in aggregate will hold 554,866,000 Shares or 56.3% of the outstanding issued share capital of the Company immediately after completion of the Share Offer) will be subject to lock-up restrictions and only eligible for resale in the public market in Hong Kong after expiry of the lock-up restrictions. Details of these lock-up restrictions are set forth in the section headed “Controlling Shareholders, Substantial Shareholders and Other Founding Shareholders” of this prospectus. If any of our existing Shareholders sells a substantial amount of our Shares, the prevailing market price for our Shares could be adversely affected.

IMPORTANT INFORMATION ON THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information on the Company. The Directors collectively and individually accept full responsibility, having made all reasonable enquiries, and confirm that, to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- there are no other matters the omission of which would make any statement in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the relevant application forms. So far as the Share Offer is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Vendors, the Sponsor, the Underwriters, any of their respective directors, or any other parties involved in the Share Offer.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Share Offer. The Share Offer comprises the Hong Kong Public Offer of initially 24,652,000 Hong Kong Offer Shares and the International Placing of initially 221,864,000 International Placing Shares subject, in each case, to reallocation on the basis described in the section headed “Structure and conditions of the Share Offer” in this prospectus.

The Listing is sponsored by the Sponsor and the Share Offer is managed by the Global Coordinator. Subject to the terms of the Underwriting Agreement, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Placing Shares are fully underwritten by the International Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement among the Global Coordinator (on behalf of the Underwriters), the Vendors and us on the Price Determination Date. The Price Determination Date is expected to be on or before Monday, 21 June, 2004 (Hong Kong time) and, in any event, not later than Friday, 25 June, 2004 (Hong Kong time). **If, for whatever reason, we, the Vendors and the Global Coordinator are not able to agree on the Offer Price, the Share Offer (including the Hong Kong Public Offer) will not proceed and will lapse.**

Further information about the Underwriters and the underwriting arrangements are set forth in the section headed “Underwriting” in this prospectus.

IMPORTANT INFORMATION ON THIS PROSPECTUS AND THE SHARE OFFER

OFFER SHARES ARE OFFERED IN CERTAIN JURISDICTIONS ONLY

Saved as mentioned below, no action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and the relevant Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the relevant Application Forms and the offering of the Offer Shares in certain jurisdictions is restricted by law. This prospectus is not an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Offer Shares under the Share Offer may be offered for subscription to: (i) members of the public in Hong Kong; and (ii) any other person in Hong Kong. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Hong Kong.

U.S.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”) or under any securities regulatory authority of any state of the U.S. and may not be offered, sold, pledged or transferred within the U.S., or to, or for the account or benefit of, U.S. persons. The Offer Shares are being offered and sold outside the U.S. in an offshore transaction to non-U.S. persons pursuant to Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the U.S. or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus or the prospectuses relating to the International Placing. Any representation to the contrary is a criminal offence in the U.S.

United Kingdom

This prospectus has not been approved under Section 21 of the Financial Services and Markets Act 2000 (“FSMA”) by a person authorised under FSMA in the United Kingdom. This prospectus is being distributed in the United Kingdom only to, and is directed only at (i) investment professionals, as defined in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the “FSMA Order”) being persons who have professional experience in matters relating to investments; and (ii) persons falling with Article 49(2)(A) to (D) (“high net worth companies, unincorporated associations etc”) of the FSMA Order (all such persons together being referred to as “relevant persons”). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

IMPORTANT INFORMATION ON THIS PROSPECTUS AND THE SHARE OFFER

The Offer Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the FSMA or the Public Offers of Securities Regulations 1995. The prospectus has not been registered with the Registrar of Companies in the United Kingdom.

In addition, no person may issue or pass on to any person in the United Kingdom any document received by him in connection with the International Placing or communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in relation to the Offer Shares unless the recipient is a relevant person.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for any Offer Shares be made (i) to persons in Singapore other than under circumstances in which such invitation, offer or sale does not constitute an invitation, offer or sale of the Offer Shares to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 1 Part XIII of the Securities and Futures Act and to persons to whom the Offer Shares may be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Singapore.

Taiwan

This prospectus has not been and will not be registered as a prospectus with the Securities and Futures Commission of Taiwan under the Securities and Exchange Law of Taiwan and the Company has not been and will not be registered under the Company Law of Taiwan and related laws and regulations of Taiwan. Accordingly, none of the Offer Shares may be offered for subscription, purchase or sold, directly or indirectly, to the public in Taiwan.

Japan

This prospectus has not been and will not be registered under the Securities and Exchange Law of Japan. None of the Offer Shares may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable requirement of Japanese law.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly or offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

IMPORTANT INFORMATION ON THIS PROSPECTUS AND THE SHARE OFFER

Cayman Islands

No offer of the Offer Shares may be made to members of the public in the Cayman Islands.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

APPLICATION FOR THE LISTING

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme).

Save as disclosed above, no part of the Shares or the Company's loan capital is listed or dealt in on any other stock exchanges. At present, save as disclosed in this prospectus, the Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

HONG KONG STAMP DUTY AND ESTATE DUTY

Dealings in the Shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

The Shares registered on the Company's Hong Kong branch register of members constitute Hong Kong property. Hong Kong estate duty may be payable upon the passing of any interests in the Shares on the Company's Hong Kong branch register of members upon the death of a person, whether or not a Hong Kong resident.

If you are unsure about the taxation implications of subscribing for the Offer Shares or holding, disposing of or dealing in the Offer Shares, you should consult an expert.

The Company, the Vendors, the Sponsor, the Underwriters, their respective directors, or other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for, or purchasing or holding or disposing of or dealing in the Offer Shares.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. LI Ning (李寧)	Flat A, 29th Floor Tower 1, Sky Horizon 35 Cloudview Road Hong Kong	Chinese
Mr. ZHANG Zhi Yong (張志勇)	Room 3508 Xiang Shan Gardens No. 88, Xiang Shan Nan Lu Haidian District, Beijing City The PRC	Chinese
Mr. TAN Wee Seng (陳偉成)	8D, Winston Mansion 121-123 Chatham Road South Tsimshatsui Hong Kong	Malaysian
Mr. CHEN Yi Hong (陳義紅)	No. 102, 2nd Block Fu Cheng Gardens No. 89, Bei Si Wan Dong Lu Chaoyang District, Beijing City The PRC	Chinese
<i>Non-executive Directors</i>		
Mr. LIM Meng Ann (林明安)	No. 303, Xiang Jiang Gardens No. 1, Xiang Jiang Bei Lu Chaoyang District, Beijing City The PRC	Singaporean
Mr. Stuart SCHONBERGER	No. 328, River Garden Baixinzhuang Houshayu, Shunyi Beijing The PRC	U.S.
Mr. FONG Ching, Eddy (方正)	House F 32 Repulse Bay Road Repulse Bay Hong Kong	British
<i>Independent non-executive Directors</i>		
Mr. KOO Fook Sun, Louis (顧福身)	Flat A, 20th Floor Block 2, Grand Garden 61 South Bay Road Hong Kong	British
Ms. WANG Ya Fei (王亞非)	No. 1-202, Building No. 18 Yiling Jiayuan Chaoyang District, Beijing City The PRC	Chinese
Mr. CHAN Chung Bun, Bunny (陳振彬)	25 Tung Tau Wan Road Stanley Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Global Coordinator, Bookrunner, Lead Manager and Sponsor	DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
Principal Placing Agent	DBS Vickers (Hong Kong) Limited 18th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong <i>As to PRC law:</i> King & Wood Level 30, North Office Tower Beijing Kerry Center 1 Guanghai Road Chaoyang District Beijing 100020 PRC <i>As to Cayman Islands law:</i> Conyers Dill & Pearman, Cayman Century Yard Cricket Square Hutchins Drive George Town Grand Cayman British West Indies
Legal advisers to the Sponsor and the Underwriters	<i>As to Hong Kong law:</i> Simmons & Simmons 35th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
Auditors and reporting accountants	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22nd Floor, Prince's Building Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Property valuers

Sallmanns (Far East) Limited
22nd Floor, Siu On Center
188 Lockhart Road
Wanchai
Hong Kong

**Receiving banker of
the Hong Kong Public Offer**

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Principal place of business in Hong Kong	Suites 2804-5 Shell Tower Times Square Causeway Bay Hong Kong
Joint company secretaries	Mr. TAN Wee Seng (陳偉成) <i>CIMA</i> Mr. NG Wai Hung (吳偉雄)
Qualified accountant	Mr. TAN Wee Seng (陳偉成) <i>CIMA</i>
Audit committee	Mr. KOO Fook Sun, Louis (顧福身) Ms. WANG Ya Fei (王亞非) Mr. Stuart SCHONBERGER
Authorised representatives	Mr. LI Ning (李寧) Mr. TAN Wee Seng (陳偉成)
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman British West Indies
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

In the PRC:

China Construction Bank
25, Jin Rong Da Jie
Beijing City
The PRC

China Merchants Bank
5, Chong Wai Da Jie
Beijing City
The PRC

United Overseas Bank Limited
Shanghai Branch
Room 2001, Jin Mao Tower
88 Century Boulevard
Pudong, Shanghai
The PRC

In Hong Kong:

DBS Bank Ltd.
16th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

United Overseas Bank Limited
Central Branch
54-58 Des Voeux Road Central
Hong Kong

INDUSTRY OVERVIEW

The information and statistics set forth in this section have been extracted from various published sources. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by our Directors in the exercise of extracting and repeating such information. The information may not be consistent with each other or with other information compiled for our industry.

CONSUMER SPENDING IN THE PRC

Overall growth

The consumer market in the PRC has experienced sustained growth in the last twenty years. Over the past 20 years, consumer spending in the PRC has shown remarkable growth following the trend of economic performance of the PRC as a whole. Such sustained growth has been a result of the continued implementation of open economic policies by the PRC government in the late 1970s. Throughout the past decade, retail sales of consumer goods in the PRC achieved double-digit annual growth rates until 1998 and 1999 when the annual growth rates slowed to single-digit figures. The slow-down was accompanied by a decline in consumer prices. Growth in such retail sales started to accelerate again in 2000. The table below sets forth total retail sales of consumer goods and per capita annual living expenditure in urban areas in the PRC between 1995 and 2002.

	1995	1996	1997	1998	1999	2000	2001	2002
Total retail sales of consumer goods (RMB billion)	2,062	2,477	2,730	2,915	3,113	3,415	3,760	4,091
Growth (%)	26.8	20.1	10.2	6.8	6.8	9.7	10.1	8.8
Per capita annual disposable income of urban households (RMB)	4,283	4,839	5,160	5,425	5,854	6,280	6,860	7,703
Growth (%)	22.5	12.9	6.6	5.1	7.9	7.3	9.2	12.3

Source: China Statistical Yearbook 2003

Effect of urbanisation and shift in consumption patterns

The PRC's economic boom has led to rapid urbanisation in recent years. Total urban population increased by 190 million or 60.9% during the period between 1991 and 2002.

	1991	2002
Total population	1,158 million	1,285 million
Total urban population	312 million	502 million
Urban population as % of total population	26.9%	39.1%

Source: China Statistical Yearbook 2003

Consumption in urban areas has consistently dominated total retail sales in the PRC. The rising urban population is increasingly dominating the PRC's total consumer spending, which was driven partly by the rapid urbanisation process and rising urban income levels. Urban dwellers in

INDUSTRY OVERVIEW

the PRC have seen their income levels rise at a faster rate than their rural counterparts in recent years. Set forth below is a comparison of the distribution of total retail sales, as well as, average per capita income in urban and rural areas between 1991 and 2002, respectively.

	1991	2002
Distribution of total retail sales (%)		
Cities	48%	63%
Counties	16%	12%
Other smaller administrative regions	36%	25%
Per capita annual disposal income among urban households (RMB)	1,701	7,703 (CAGR: 14.7%)
Per capita annual net income of rural households (RMB)	709	2,476 (CAGR: 10.1%)

Source: China Statistical Yearbook 2003

The emergence of a vibrant middle class in the PRC has led to a noticeable change in consumption patterns. Compared to earlier years when people mainly spent on daily necessities, people in the PRC are now beginning to spend more on leisure, entertainment, clothing, communications, holidays, cars and residences.

SPORTS IN THE PRC AND 2008 BEIJING OLYMPIC GAMES

Since 1949, the PRC has focused on developing its sports programs for athletes and the general public. Market reforms initiated in the late 1970s have seen a rapid development in sports participation in the PRC. Since then, the PRC has made great achievements in the world's sporting events. As of today, the PRC has won 80 Summer Olympic gold medals and more than 1,600 world championships. At the 2000 Sydney Olympic Games, China won 28 gold medals and ranked third in the medal tally.

In July 2001, the PRC obtained the right to host the 2008 Olympic Games in Beijing. It is expected that the 2008 Beijing Olympic Games will significantly increase the public's passion for, and awareness of, sports and fitness in the PRC.

BRANDED SPORTING GOODS INDUSTRY IN THE PRC

There are limited published statistics available from independent sources on the branded sporting goods industry in the PRC. Based on our participation in the PRC's branded sporting goods industry since 1989 and over 10 years of industry experience of our key management members, our Directors believe that:

- the sporting goods industry in the PRC has experienced continued growth in recent years;
- sales of branded sporting goods were mainly channelled through shopping centres in 1st-tier cities, and through specialised retail stores in 2nd-tier and 3rd-tier cities;

INDUSTRY OVERVIEW

- consumers in 1st-tier cities and high-end consumers tend to focus on product functionality and performance because of their more mature consumption behavior, greater participation in sports, and greater propensity to spend. As a result, product diversification offers significant opportunities in these markets;
- the branded sporting goods industry in the PRC is expected to continue to grow rapidly over the next five years. During such period, the 2008 Beijing Olympic Games is expected to stimulate the consumption of sporting goods and positively impact the overall market growth;
- there are many local and international sports brands competing in the PRC market. Our principal competitors are Nike, Adidas, Anta, Doublestar and Kangwei;
- generally, in the PRC, international brands perform better in 1st-tier cities and some coastal cities where consumer spending is higher on a per capita basis. Domestic brands are more competitive in 2nd-tier and 3rd-tier cities; and
- the performance of the branded sporting goods industry and its industry players depends on the following principal factors:
 - the level of consumer disposable income in the PRC;
 - the level of demand for sporting goods;
 - changes in the operating conditions in the PRC consumer and retail market;
 - the ability of the relevant industry player to manage and control operating costs; and
 - the effectiveness of the relevant industry player to compete on the basis of product quality, design, brand image, service, selection and price.

In 2003, the Horizon Research Group (an independent PRC company specialising in the market research and survey of the PRC consumer market) conducted a survey on major local and international footwear brands in the PRC and published a research report titled “2003 Brand Equity Research on Recognised Sports Footwear Brands (2003年知名運動鞋品牌價值研究報告)”. This research report was concluded by interviewing 3,443 adult residents over the age of 18 in 10 larger cities in the PRC (Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Shenyang, Xian, Jinan, Dalian and Xiamen) and 1,480 adult residents over the age of 18 in 9 smaller cities in the PRC (Zhejiang, Fujian, Liaoning, Hebei, Anhui, Hunan, Sichuan, Shaanxi and Gansu). It mentioned over 30 footwear brands. It mainly focused its studies on five major local sports footwear brands (LI-NING, Anta, Kangwei, Doublestar, Gweat) and five major international sports footwear brands (Nike, Adidas, Reebok, Puma and Converse). According to this research report, Adidas, Nike and LI-NING, in descending order, are the top three sports footwear brands in terms of overall brand equity in the PRC market.

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OVERVIEW

We are one of the leading sports brand enterprises in the PRC. We have our own branding, research, design, manufacturing, distribution and retail capabilities. Our products include sports footwear, apparel and accessories for sport and leisure use primarily sold under the LI-NING brand, which is owned by us, and the KAPPA brand, which is exclusively licenced to us for use in the PRC and Macau.

We have established an extensive distributorship and retail network in the PRC market. We sell to our distributors who operate franchised LI-NING and KAPPA retail outlets under our supervision. We also operate our own LI-NING and KAPPA retail stores and concessions. As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. As at the same date, we also operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands in the PRC.

Internationally, we focus our sales of LI-NING branded products in Italy, Spain and Russia through our independent distributors.

The processing and manufacturing of the majority of our sports apparel and of all of our sports footwear and accessories are subcontracted to independent contract manufacturers in the PRC. We manufacture a small portion of our sports apparel in our own manufacturing facilities located in Sanshui, Guangdong, the PRC.

For the LI-NING brand, we pursue opportunities to reinforce and capitalise on our brand recognition by expanding our product offerings and developing new product lines. For licenced international brands, we intend to pursue opportunities to enter into exclusive management rights or licences of other foreign sports brands with good market potential to manufacture, market and sell in the PRC market.

We rely on our strong brand awareness, extensive distributorship and retail coverage, as well as independent design, development and research capabilities to capture market share and maximise sales. New designs and products are developed at our design and development centres in Beijing and Foshan, Guangdong, the PRC.

During the Track Record Period, our turnover increased from approximately RMB734.9 million in 2001 to approximately RMB1,276.2 million in 2003, achieving a CAGR of approximately 31.8%. During the same period, our net profit increased from approximately RMB49.6 million in 2001 to approximately RMB94.0 million in 2003, achieving a CAGR of approximately 37.6%.

As one of the leading sports brand enterprises in the PRC, we expect to benefit from the anticipated strong growth of the overall sporting goods industry in the PRC. We also expect to leverage our leading position in the PRC market to expand overseas.

COMPETITIVE ADVANTAGES

We believe that our competitive advantages are:

Our leading market position

The Directors believe that the LI-NING brand was one of the earliest domestic sports brands in the PRC and has grown significantly to become one of the leading sports brands in the PRC. We will strive to leverage our leading market position to increase our revenue and profitability in line with the rapidly-growing sporting goods industry in the PRC.

Our extensive sales network

We have developed an extensive distributorship and retail coverage in the PRC. We have a prominent network of franchised retail outlets operated by our distributors as well as our directly-managed retail outlets. As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. As at the same date, we operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands in the PRC.

Our network of franchised and directly-managed retail outlets has a wide geographical spread in the PRC, covering all the provinces and the municipalities directly under the central government. The easy accessibility of our products in many convenient retail locations serves to build brand loyalty and increases penetration among PRC consumers.

Our well-defined market positioning and comprehensive product offerings

We believe that LI-NING branded products are well-positioned and distinguished from our competitors by offering high quality and superior performance at prices below international brands.

We offer a comprehensive range of sporting products, including specialised sporting, leisure and golf products. Some of our specialised sporting goods are designed to meet the needs of professional athletes. Our comprehensive product offerings cater to different sports-related consumer groups.

Our abundant sports marketing and sponsorship resources

We believe marketing and promotions are crucial to the success in the sporting goods industry. Our early entry into the PRC's sporting goods industry has secured our long-term relationship with the sports community in the PRC. Our sponsorship of major sports teams, sporting events and key athletes in the PRC have enabled us to create public confidence and passion for our products, and to achieve significant advertising and promotional impact.

Over the years, we have sponsored the Chinese delegation for the 1992, 1996 and 2000 Olympic Games as well as the 1998 Winter Olympic Games. We will also sponsor the Chinese delegation for the upcoming 2004 Olympic Games. Further, we have been a regular sponsor of various major Chinese national sports teams, including the Chinese Table Tennis Team, Chinese Diving Team, Chinese Gymnastic Team and Chinese Shooting Team. These

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four national teams accounted for 15 out of the total 28 gold medals won by the Chinese delegation in the 2000 Sydney Olympic Games. We believe that our sponsorship of such high profile and world champion Chinese sports teams, especially in sporting events such as the Olympic Games, will further enhance our public standing and secure customer loyalty in the PRC.

Our professional management team and motivated corporate culture

Mr. Li Ning (chairman of the Company and an executive Director), Mr. Zhang Zhi Yong (chief executive officer of the Company and an executive Director) and Mr. Chen Yi Hong (an executive Director) each has over 10 years of experience in the sporting goods industry in the PRC. Their experience and intimate knowledge of the sporting goods industry in the PRC are critical competitive advantages for our success.

Among our Directors, we are also supported by individuals with a wealth of experience in corporate, strategic, financial and investment management. For example, Mr. Tan Wee Seng (an executive Director, chief financial officer, qualified accountant and one of the joint company secretaries of the Company) has over 27 years of experience in financial management and business management with multinational corporations.

Through intensive training programmes, we aim to equip our management staff with versatile management skills and in-depth knowledge of the products and the industry. Through various incentive schemes, they are encouraged to dedicate their professional efforts to maintain our leading position in the PRC sporting goods industry. Our management team enables us to successfully apply international business models, industry-specific know-how and best practices in the PRC's fast evolving sporting goods market.

GROWTH STRATEGIES

Our Directors expect that the 2008 Beijing Olympic Games will significantly raise the public interest for, and awareness of, sports and fitness in the PRC, and stimulate demand for sporting goods. We believe that as one of the leading sports brands in the PRC, the LI-NING brand will benefit from such demand. Our objective is to maintain our domestic market position by adopting the following growth strategies:

Reinforce our sales channels and distribution infrastructure

We believe that we currently have one of the most extensive sales channels for sporting goods in the PRC in terms of number of retail points (including both franchised and directly-managed retail outlets). Nevertheless, in preparation for the 2008 Beijing Olympic Games, it is expected that our main competitors will make investments and expand their sales channels in the PRC. It is therefore important for us to continue to expand our domestic sales channels. By extending the coverage of our sales channels and quality of our distribution infrastructure, we will also create momentum for our product development and brand enhancement. To achieve this, we intend to:

- increase the number of retail points (both franchised and directly-managed retail outlets) to a total of approximately 2,800, 3,200 and 3,500 by the end of 2004, 2005 and 2006, respectively, in order to correspond to the income growth in different regions. The anticipated growth of retail points in 2004 is 30.5% which is based on our actual implementation plan and is in line with the expected market growth of the PRC's branded sporting goods;

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- improve the quality and service standard of our franchised and directly-managed retail outlets to boost our brand image and identity by:
 - increasing the average outlet space;
 - improving location of retail spaces;
 - modernising outlet image, format and decoration;
 - opening flagship stores in large cities such as Beijing, Shanghai and Guangzhou;
 - continuing to enhance the standard of our training system and service quality; and
- install electronic point-of-sales (EPOS) systems in each of our franchised and directly-managed retail outlets.

Upgrade our product design, development and research platform

To counter the challenge of international competitors and maintain our leading market position, we plan to upgrade our product design, development and research platform. We also intend to make substantial investments to develop our own basic research capabilities. For distinct sports categories such as soccer, basketball and tennis, we aim to produce professional sporting goods for professional athletes using advanced technologies. In particular, we plan to:

- establish our own basic research team;
- establish a product design and development centre in Hong Kong to combine overseas talents in product design with local market knowledge in the PRC to launch new product series under a unified brand image and style; and
- cooperate with suppliers and manufacturers to use new materials and technologies to enhance the performance of our sporting goods.

Strengthen our brand awareness and loyalty

We believe that one of our most valuable assets is the unique image of the LI-NING brand as one of the leading sports brands in the PRC. We are committed to continue to invest and strengthen our brand to retain customer loyalty and promote customer preferences. To achieve this, we plan to:

- intensify our sports marketing and promotional campaigns (such as campaigns for the 2004 Athens Olympic Games);
- launch specialised footwear series for distinct sports categories such as soccer, basketball, tennis, running and fitness; and

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- employ advertising strategies to increase mass appeal of our sporting goods for distinct sports categories such as soccer, basketball, tennis, running and fitness.

Enhance our supply chain management for faster response and better efficiency

We intend to enhance our supply chain management system for better efficiency and faster response to market changes by:

- upgrading our management information systems to connect our headquarters with all of our franchised and directly-managed retail outlets in order to:
 - provide daily data feedback on procurement, supplies and ultimate sales;
 - shorten reporting time; and
 - better control inventory risks and costs;
- upgrading our information technology platform to be Internet and e-business compatible;
- enhancing our logistics support to cover distribution to all sales points; and
- reducing our procurement and production cycle to accept purchase orders on both a rolling and continual basis.

Develop our licenced international brands business and venture into other sports-related operations

We intend to utilise the full potential of our network in the sporting goods industry in the PRC to maximise our revenues and profitability. We believe that by managing and introducing foreign brands (such as the KAPPA brand) with special characteristics, styles and product niches into the PRC market, we can effectively leverage our position in the industry to develop diversified and robust income streams. We intend to expand our licenced international brand business and venture into other sports-related business, if opportunities arise. In particular, we plan to:

- expand the presence of the KAPPA brand in the PRC by increasing its retail coverage and promotional efforts;
- acquire the management rights or licences of other international brands for the PRC market; and
- explore opportunities to venture into other related businesses with synergies to our existing business through collaboration or acquisition.

HISTORY AND DEVELOPMENT

Our founder – Mr. Li Ning

Mr. Li Ning, the founder of our business, is one of the most outstanding athletes in the 20th century. Mr. Li first joined the Chinese National Gymnastics Team at the age of 17 and first gained international recognition in 1982 at the 6th World Cup Competition where he won six gold medals for men's artistic gymnastics and was named “體操王子” (the “Prince of Gymnastics”) in China. At the 23rd Los Angeles Olympic Games in 1984, he won three gold medals, two silver medals and one bronze medal.

In 1987, Mr. Li became the only Asian member of the Athlete's Commission of the International Olympic Committee. From 1993 to 2000, he has served as a member of the Men's Artistic Gymnastics Technical Committee of the Fédération Internationale De Gymnastique. In 1999, he was voted one of the “World's Most Excellent Athletes in the 20th Century” by the World Sports Correspondent Association.

Development milestones

After retiring in 1989 from his sports career, Mr. Li Ning initiated the idea of the LI-NING brand with the goal of creating the first nationwide sports brand in the PRC. The following section sets out certain milestones in the development of our business:

1989

- Mr. Li Ning initiated the idea of the LI-NING brand and began to promote the LI-NING branded sporting goods.
- In December 1989, Guangdong Jianlibao Group established Guangdong Li Ning for the manufacture and sale of sports apparel under the LI-NING brand. Mr. Li Ning was initially a director and a deputy general manager of Guangdong Li Ning. Guangdong Jianlibao Group is a domestic PRC enterprise. Other than its capacity as the shareholder of Guangdong Li Ning, Guangdong Jianlibao Group is an Independent Third Party.

1992

- LI-NING branded products were selected as the official sporting goods for the Chinese delegation to the 25th Barcelona Olympic Games.

Between 1992 and 1996

- We started to develop our distributorship and retail network in the PRC. Through intensive sponsorship of sports events, athletes and local sports activities, the LI-NING brand began to penetrate the PRC consumer market.

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Between 1997 and 1999

Mr. Li Ning together with other partners and management staff started to reorganise the business operation, and our Group structure started to emerge:

- In August 1997, Mr. Li Ning, together with other partners, established Shanghai Li Ning as the principal member of the Group to centralise our overall business;
- in November 1997, Beijing Li Ning was established as a subsidiary of Shanghai Li Ning to coordinate the sales and marketing of LI-NING branded products;
- since then, other members of the Group (including Guangdong Li Ning) were consolidated into or established under Shanghai Li Ning as its subsidiaries; and
- beginning June 1998, we started to establish our own regional sales companies to operate our own retail outlets in the PRC.

Please see the section headed “Shareholding and Reorganisation” below for detailed shareholding of Shanghai Li Ning.

1999

- During the year, we installed a SAP Enterprise Resources Planning (ERP) system to enhance our overall operational efficiency.

Between 2000 and 2001

- For the first time, we participated in the ISPO International Sporting Goods Expo in Germany, to expand our marketing of the LI-NING brand to international markets. Since then, we began to develop and implement business strategies for exports to international markets.

2002

- During the year, we began employing foreign designers from Europe to further enhance our product designs and to conform with international standards; and
- in February 2002, we entered into the KAPPA Licence Agreements with the BasicNet Group and obtained the exclusive rights to sell the KAPPA brand products in the PRC and Macau.

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Shareholding and Reorganisation

Phase 1

In August 1997, Shanghai Li Ning was established with a registered capital of RMB500,000. Upon its establishment, the equity interests of Shanghai Li Ning were owned as follows:

Equity holder	Equity interest (%)
Shanghai Li Ning:	
Shanghai Ning Sheng ⁽¹⁾	79.6
Shanghai Li Fa ⁽¹⁾	20.4
Total	<u>100.0</u>

In December 1997, Shanghai Li Ning increased its registered capital to RMB26 million.

Phase 2

In 2001, Shanghai Li Ning originally intended to convert from a limited liability company into a joint stock limited company. According to the PRC Company Law, a joint stock limited company must be established by a minimum of five promoters. In October 2001, equity interests of Shanghai Li Ning were transferred among some of its beneficial owners to increase the number of shareholders of Shanghai Li Ning from two to six. In addition, the registered ownership of the LI-NING trademarks was transferred from Shanghai Ning Sheng to Shanghai Li Ning and in consideration of such transfer, Mr. Li Ning and his family members received a proportionate increase in the beneficial interests in Shanghai Li Ning. As a result, the equity interest of Shanghai Li Ning became:

Equity holder	Equity interest (%)
Shanghai Li Ning:	
Shanghai Ning Sheng ⁽¹⁾	64.927
Shanghai Li Fa ⁽¹⁾	4.740
Shanghai Hui Peng ⁽¹⁾	5.175
Tianjin Long Hua ⁽¹⁾	3.184
Tianjin Hua Bao Wei ⁽¹⁾	3.535
Shanghai Jin Hui ⁽¹⁾	18.439
Total	<u>100.000</u>

For details of changes of attributable interests in Shanghai Li Ning and each of its equity holders from Phase 1 to Phase 2, please refer to Note 1 below.

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However, Shanghai Li Ning did not eventually proceed with the conversion of Shanghai Li Ning into a joint stock company. Instead, Shanghai Li Ning was converted from a domestic enterprise into a wholly foreign-owned enterprise as a result of private equity investments and in anticipation of a listing on an overseas exchange as a result of the following steps:

- (i) Pursuant to a sale and purchase agreement dated 29 October, 2002, RealSports agreed to acquire from the then prevailing shareholders of Shanghai Li Ning the entire registered capital of Shanghai Li Ning for a consideration of US\$6 million, based on Shanghai Li Ning's net book value at the time of the purchase.
- (ii) On 11 December, 2002, Shanghai Li Ning was converted from a domestic limited liability company into a wholly foreign-owned enterprise in the PRC with a registered capital of US\$8 million and a total investment capital of US\$20 million.

Phase 3

In preparation of the private equity investments and conversion of Shanghai Li Ning to a wholly foreign-owned enterprise in the PRC, RealSports was incorporated on 8 October, 2002. Upon its incorporation, the equity interests of RealSports were as follows:

Shareholder	Equity interest (%)
RealSports:	
China Sports ^{(2) (4)}	83.167
Asia Lead ^{(3) (4)}	16.833
	<hr/>
Total	100.000
	<hr/> <hr/>

Immediately prior to the acquisition of Shanghai Li Ning by RealSports, the beneficial owners of China Sports and Asia Lead and their effective interests in RealSports were the same as the beneficial owners of Shanghai Ning Sheng, Shanghai Li Fa, Shanghai Hui Peng, Tianjin Long Hua, Tianjin Hua Bao Wei and Shanghai Jin Hui and their effective interests in Shanghai Li Ning, save for:

- the introduction of ABC Assets, Mr. Lee Yue Hung Joseph, Mr. Lei Lin and Mr. Li Zhi Qiang as four minority beneficial owners of China Sports; and
- the introduction of ICH as a minority beneficial owner of Asia Lead.

For details of changes of attributable interests in Shanghai Li Ning and each of its equity holders from Phase 2 to Phase 3, please refer to Note 4 below.

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Phase 4

In January 2003, Tetrad and CDH subscribed to new shares in RealSports at a consideration of US\$15 million and US\$3.5 million respectively pursuant to the Private Equity Investments Agreements. The consideration was based on a variety of valuation techniques commonly used by institutional private equity investors. These valuation techniques calculate the value of a company based on earnings performance, as well as, cash flow performance. Tetrad and CDH also used comparable public market company valuations as a benchmark for the valuation of RealSports, and applied an appropriate discount to these valuations to compensate for its lack of liquidity as a private company at the time. Based on all of these considerations, Tetrad and CDH valued RealSports based on a multiple of its consolidated 2001 audited net earnings.

Under the Private Equity Investments Agreements, the parties thereto agreed that Tetrad and CDH as investors of RealSports are subject to certain rights and obligations, including the right to nominate directors to the board of RealSports and payment obligations of share subscription price to RealSports. The parties thereto intended that all rights and obligations under the Private Equity Investments Agreements will be terminated upon Listing. All preferential rights, if any, of Tetrad and CDH under the Private Equity Investments Agreements will be terminated upon Listing.

Upon completion of the Private Equity Investments Agreements, the equity interests of RealSports were as follows:

Shareholder	Equity interest (%)
RealSports:	
China Sports	62.688
Asia Lead	12.688
Tetrad	19.965
CDH	4.659
	<hr/>
Total	100.000
	<hr/> <hr/>

The Company's valuation based on the Offer Price has appreciated since CDH and Tetrad invested in the Company on 7 January, 2003. This increase in valuation is due to a combination of (i) the Company's financial performance since CDH and Tetrad's investment; and (ii) the comparable valuations for publicly listed companies.

For details of changes of attributable interests in Shanghai Li Ning and each of its equity holders from Phase 3 to Phase 4, please refer to Note 4 below.

There has been no change in the beneficial owners of RealSports and Shanghai Li Ning since completion of the Private Equity Investments Agreements in January 2003.

Reorganisation

In preparation for the Listing, the companies comprising the Group underwent the Reorganisation, and as a result, the Company became the holding company of the Group.

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Upon completion of the Reorganisation, the shareholding of the Company was the same as the beneficial ownership of RealSports except that the beneficial interests of Mr. Li Ning, Mr. Li Chun, Ms. Li Yin and their spouses have been reorganised and held by four corporate shareholders, namely, Victory Mind Assets, Champion Link, Double Essence and Alpha Talent. The respective shareholdings of the Company upon completion of the Reorganisation and prior to the Listing was as follows:

Shareholder	Equity interest (%)
The Company:	
Victory Mind Assets	29.357
Champion Link	20.000
Double Essence	6.808
Alpha Talent	4.700
ABC Assets	0.462
ICH	0.932
Other Founding Shareholders	13.117
Tetrad	19.965
CDH	4.659
Total	100.000

Details of the shareholding of the Company immediately following completion of Share Offer are set forth in the section headed “Business – Shareholding, corporate and operating structure” in this prospectus. Details of the Reorganisation are set forth in the section headed “Corporate reorganisation” in Appendix VI to this prospectus.

Notes:

- Changes of attributable interests in Shanghai Li Ning from Phase 1 to Phase 2:

Equity holder	Phase 1		Phase 2		Notes for the change
	Attributable interests in		Attributable interests in		
	Equity interest (%)	Shanghai Li Ning (%)	Equity interest (%)	Shanghai Li Ning (%)	
I. Shanghai Ning Sheng:					
Mr. Li Ning (李寧)	34.00	27.064	40.00	25.971	
Mr. Li Chun (李進) (the brother of Mr. Li Ning)	23.00	18.308	31.00	20.127	
Ms. Chen Yong Yan (陳永妍) (the spouse of Mr. Li Ning)	10.00	7.960	10.00	6.492	
Ms. Dang Liu Ning (黨柳寧) (the spouse of Mr. Li Chun)	4.00	3.184	6.00	3.896	
Mr. Zhao Jian Guo (趙建國) (the spouse of Mr. Li Ying)	3.00	2.388	6.00	3.896	
Ms. Li Ying (李迎) (the sister of Mr. Li Ning)	3.00	2.388	6.00	3.896	
Mr. Qin Qian (覃謙) (the cousin of Mr. Li Ning)	0.50	0.398	1.00	0.649	

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Equity holder	Phase 1 Attributable interests in		Phase 2 Attributable interests in		Notes for the change
	Equity interest (%)	Shanghai Li Ning (%)	Equity interest (%)	Shanghai Li Ning (%)	
Mr. Fu Lu Ming (傅魯明) (a founding partner)	6.50	5.174	–	–	(1) Transferred into interests held through Shanghai Hui Peng in July 2001
Mr. Xie Tie Hua (謝鐵華) (a staff member)	6.50	5.174	–	–	(2) Transferred into interests held through Shanghai Hui Peng in July 2001
Mr. Tang Zi Gang (唐自剛) (a founding partner)	6.50	5.174	–	–	(3) Transferred into interests held through Tianjing Long Hua in July 2001
Mr. Li Chun Yang (李春陽) (a founding partner)	3.00	2.388	–	–	(4) Transferred into interests held through Tianjing Long Hua in July 2001
Sub-total	100.00	79.600	100.00	64.927	

II. Shanghai Li Fa:

Mr. Li Ning (李寧)	51.00	10.404	–	–	(5) Transferred to other equity holders in June 2001
Mr. Cheng Wai (鄭偉) (a founding partner)	1.50	0.306	–	–	(5) Transferred to other equity holders in June 2001
Mr. Ye Zhen Nan (葉振南) (a founding partner)	2.00	0.408	–	–	(5) Transferred to other equity holders in June 2001
Mr. Zhu Hong Xin (朱洪新) (a founding partner)	2.50	0.510	–	–	(5) Transferred to other equity holders in June 2001
Mr. Liu Qing Quan (劉慶泉) (a founding partner)	2.00	0.408	–	–	(5) Transferred to other equity holders in June 2001
Mr. Li Ji Duo (李紀鐸) (a founding partner)	2.50	0.510	–	–	(5) Transferred to other equity holders in June 2001
Mr. Pan Yi Cheng (潘沂澄) (a founding partner)	2.00	0.408	–	–	(5) Transferred to other equity holders in June 2001
Mr. Zheng Jia Shan (鄭嘉善) (a founding partner)	4.00	0.816	–	–	(5) Transferred to other equity holders in June 2001
Mr. Chen Yi Hong (陳義紅) (an executive Director)	10.00	2.040	–	–	(6) Transferred into interests held through Tianjing Hua Bao Wei in June 2001
Ms. Liu Pei Ying (劉培英) (the spouse of Mr. Chen Yi Hong)	2.00	0.408	–	–	(6) Transferred into interests held through Tianjing Hua Bao Wei in June 2001
Mr. Zhang Zhi Yong (張志勇) (an executive Director)	–	–	14.73	0.698	See (5) above
Mr. Meng Yong Li (孟永立) (a current employee)	–	–	10.08	0.477	See (5) above
Mr. Sun Yun Pei (孫運培) (a founding partner)	4.00	0.816	12.40	0.588	See (5) above
Mr. Sun Ming (孫明) (a current employee)	2.50	0.510	15.50	0.735	See (5) above
Ms. Fu Xin (傅昕) (a founding partner)	2.00	0.408	3.10	0.147	See (5) above
Mr. Sun Jian Jun (孫建軍) (a current employee)	–	–	3.10	0.147	See (5) above
Mr. Zhang Xiang Du (張向都) (a current employee)	2.50	0.510	8.53	0.404	See (5) above
Mr. Li Xiao Shuang (李小雙) (a founding partner)	2.00	0.408	6.20	0.294	See (5) above
Ms. Li Yi Fang (李奕芳) (a founding partner)	2.00	0.408	6.20	0.294	See (5) above
Mr. Liang Yong Gen (梁永根) (a current employee)	–	–	3.10	0.147	See (5) above
Mr. Hong Er Guang (洪爾廣) (a founding partner)	2.00	0.408	6.20	0.294	See (5) above

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Equity holder	Phase 1		Phase 2		Notes for the change
	Attributable interests in		Attributable interests in		
	Equity interest (%)	Shanghai Li Ning (%)	Equity interest (%)	Shanghai Li Ning (%)	
Mr. Zhao Yu (趙瑜) (a founding partner)	2.00	0.408	6.20	0.294	See (5) above
Mr. Zhang Jian (張健) (a founding partner)	1.50	0.306	4.66	0.221	See (5) above
Sub-total	100.00	20.400	100.00	4.740	
III. Shanghai Hui Peng:					
Mr. Fu Lu Ming (傅魯明) (a founding partner)	-	-	50.00	2.5875	See (1) above
Mr. Xie Tie Hua (謝鐵華) (a current staff member)	-	-	50.00	2.5875	See (2) above
Sub-total	-	-	100.00	5.175	
IV. Tianjin Long Hua:					
Mr. Tang Zi Gang (唐自剛) (a founding partner)	-	-	70.00	2.229	See (3) above
Ms. Zheng Si Hua (鄭斯華) (an associate of Mr. Tang Zi Gang)	-	-	11.25	0.358	See (3) above
Mr. Li Chun Yang (李春陽) (a founding partner)	-	-	15.50	0.494	See (4) above
Mr. Huang Li Ping (黃力平) (an associate of Mr. Li Chun Yang)	-	-	3.25	0.103	See (4) above
Sub-total	-	-	100.00	3.184	
V. Tianjin Hua Bao Wei:					
Mr. Chen Yi Hong (陳義紅) (an executive Director)	-	-	85.00	3.005	See (6) above
Ms. Liu Pei Ying (劉培英) (the spouse of Mr. Chen Yi Hong)	-	-	15.00	0.530	See (6) above
Sub-total	-	-	100.00	3.535	
VI. Shanghai Jin Hui					
Shanghai Ning Sheng	-	-	80.00	14.751	(7) Due to transfer of LI-NING trademarks to Shanghai Li Ning
Ms. Chen Yong Yan (陳永妍) (the spouse of Mr. Li Ning)	-	-	20.00	3.688	See (7) above
Sub-total	-	-	100.00	18.439	
Grand -total		100.000		100.000	

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2. China Sports was incorporated in the BVI on 30 May, 2002. Its sole shareholder is Mr. Li Ning. Pursuant to a declaration of trust made by Mr. Li Ning dated 7 January, 2003, Mr. Li Ning declared that equity interests held by him in China Sports were beneficially owned as follows:

	Beneficiary Beneficial interest (%)
China Sports:	
Mr. Li Ning (李寧)	43.696
Mr. Li Chun (李進)	28.055
Ms. Chen Yong Yan (陳永妍)	9.050
Ms. Dang Liu Ning (黨柳寧)	5.430
Mr. Zhao Jian Guo (趙建國)	5.430
Ms. Li Ying (李迎)	5.430
Mr. Qin Qian (覃謙)	0.905
Mr. Lee Yue Hung Joseph (李譽鴻)*	1.227
Mr. Lei Lin (雷林)*	0.026
Mr. Li Zhi Qiang (李志強)*	0.014
ABC Assets*	0.737
	100.000
Total	100.000

The declaration of trust by Mr. Li Ning was made for administrative convenience to minimise the number of registered shareholders to deal with the private equity investments.

* Each of Mr. Lee Yue Hung Joseph, Mr. Lei Lin, Mr. Li Zhi Qiang and ABC Assets is an Independent Third Party. ABC Assets is a company incorporated in the BVI, which is wholly-owned by Mr. Fong Shing Kwong, an Independent Third Party. Li Zhi Qiang is the general manager of Beijing Edo Sports and has 20% equity interests in Beijing Edo Sports. Mr. Lee Yue Hung Joseph, Mr. Lei Lin, Mr. Li Zhi Qiang and ABC Assets, together with ICH, were business associates of Beijing Edo Sports. Beijing Edo Sports is an associate of Mr. Li Ning, a connected person of the Company. Please see the section headed "Connected transactions" for more information relating to the Group's transactions with Beijing Edo Sports.

3. Asia Lead was incorporated in the BVI on 6 September, 2002. Its equity interests were held as follows:

	Shareholder Equity interest (%)
Asia Lead:	
Mr. Chen Yi Hong (陳義紅)	91.427
ICH	7.345
Mr. Zhang Jian (張健)	1.228
	100.000
	100.000

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Pursuant to a declaration of trust made by Mr. Chen Yi Hong dated 7 January, 2003, Mr. Chen Yi Hong declared that the equity interests held by him in Asia Lead were beneficially owned as follows:

	Beneficiary Beneficial interest (%)
Asia Lead:	
Mr. Zhang Zhi Yong (張志勇)	3.889
Mr. Meng Yong Li (孟永立)	2.661
Mr. Sun Yun Pei (孫運培)	3.275
Mr. Sun Ming (孫明)	4.093
Ms. Fu Xin (傅昕)	0.819
Mr. Sun Jian Jun (孫建軍)	0.819
Mr. Zhang Xiang Du (張向都)	2.251
Mr. Li Xiao Shuang (李小雙)	1.637
Ms. Li Yi Fang (李奕芳)	1.637
Mr. Liang Yong Gen (梁永根)	0.819
Mr. Hong Er Guang (洪爾廣)	1.637
Mr. Zhao Yu (趙瑜)	1.637
Mr. Fu Lu Ming (傅魯明)	14.411
Mr. Xie Tie Hua (謝鐵華)	14.411
Mr. Tang Zi Gang (唐自剛)	12.419
Ms. Zheng Si Hua (鄭斯華)	1.996
Mr. Li Chun Yang (李春陽)	2.750
Mr. Huang Li Ping (黃力平)	0.577
Mr. Chen Yi Hong (陳義紅)	16.736
Ms. Liu Pei Ying (劉培英)	2.953
	91.427
Total	91.427

The declaration of trust by Mr. Chen Yi Hong was made for administrative convenience to minimise the number of registered shareholders to deal with the private equity investments.

4. Changes of attributable interests in Shanghai Li Ning/RealSports from Phase 2 to Phase 4:

	Phase 2	
Equity holder of Shanghai Li Ning	Equity interest (%)	Attributable interests in Shanghai Li Ning (%)
Shanghai Ning Sheng:		
Mr. Li Ning (李寧)	40.00	25.971
Mr. Li Chun (李進)	31.00	20.127
Ms. Chen Yong Yan (陳永妍)	10.00	6.492
Ms. Dang Liu Ning (黨柳寧)	6.00	3.896
Mr. Zhao Jian Guo (趙建國)	6.00	3.896
Ms. Li Ying (李迎)	6.00	3.896
Mr. Qin Qian (覃謙)	1.00	0.649
	100.00	64.927
Sub-total	100.00	64.927

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Equity holder of Shanghai Li Ning	Phase 2	
	Equity interest (%)	Attributable interests in Shanghai Li Ning (%)
Shanghai Jin Hui:		
Shanghai Ning Sheng	80.00	14.751
Ms. Chen Yong Yan (陳永妍)	20.00	3.688
Sub-total	<u>100.00</u>	<u>18.439</u>
Shanghai Li Fa:		
Mr. Zhang Zhi Yong (張志勇)	14.73	0.698
Mr. Meng Yong Li (孟永立)	10.08	0.477
Mr. Sun Yun Pei (孫運培)	12.40	0.588
Mr. Sun Ming (孫明)	15.50	0.735
Ms. Fu Xin (傅昕)	3.10	0.147
Mr. Sun Jian Jun (孫建軍)	3.10	0.147
Mr. Zhang Xiang Du (張向都)	8.53	0.404
Mr. Li Xiao Shuang (李小雙)	6.20	0.294
Ms. Li Yi Fang (李奕芳)	6.20	0.294
Mr. Liang Yong Gen (梁永根)	3.10	0.147
Mr. Hong Er Guang (洪爾廣)	6.20	0.294
Mr. Zhao Yu (趙瑜)	6.20	0.294
Mr. Zhang Jian (張健)	4.66	0.221
Sub-total	<u>100.00</u>	<u>4.740</u>
Shanghai Hui Peng:		
Mr. Fu Lu Ming (傅魯明)	50.00	2.5875
Mr. Xie Tie Hua (謝鐵華)	50.00	2.5875
Sub-total	<u>100.00</u>	<u>5.175</u>
Tianjin Long Hua:		
Mr. Tang Zi Gang (唐自剛)	70.00	2.229
Ms. Zheng Si Hua (鄭斯華)	11.25	0.358
Mr. Li Chun Yang (李春陽)	15.50	0.494
Mr. Huang Li Ping (黃力平)	3.25	0.103
Sub-total	<u>100.00</u>	<u>3.184</u>
Tianjin Hua Bao Wei:		
Mr. Chen Yi Hong (陳義紅)	85.00	3.005
Ms. Liu Pei Ying (劉培英)	15.00	0.530
Sub-total	<u>100.00</u>	<u>3.535</u>
GRAND TOTAL		<u>100.000</u>

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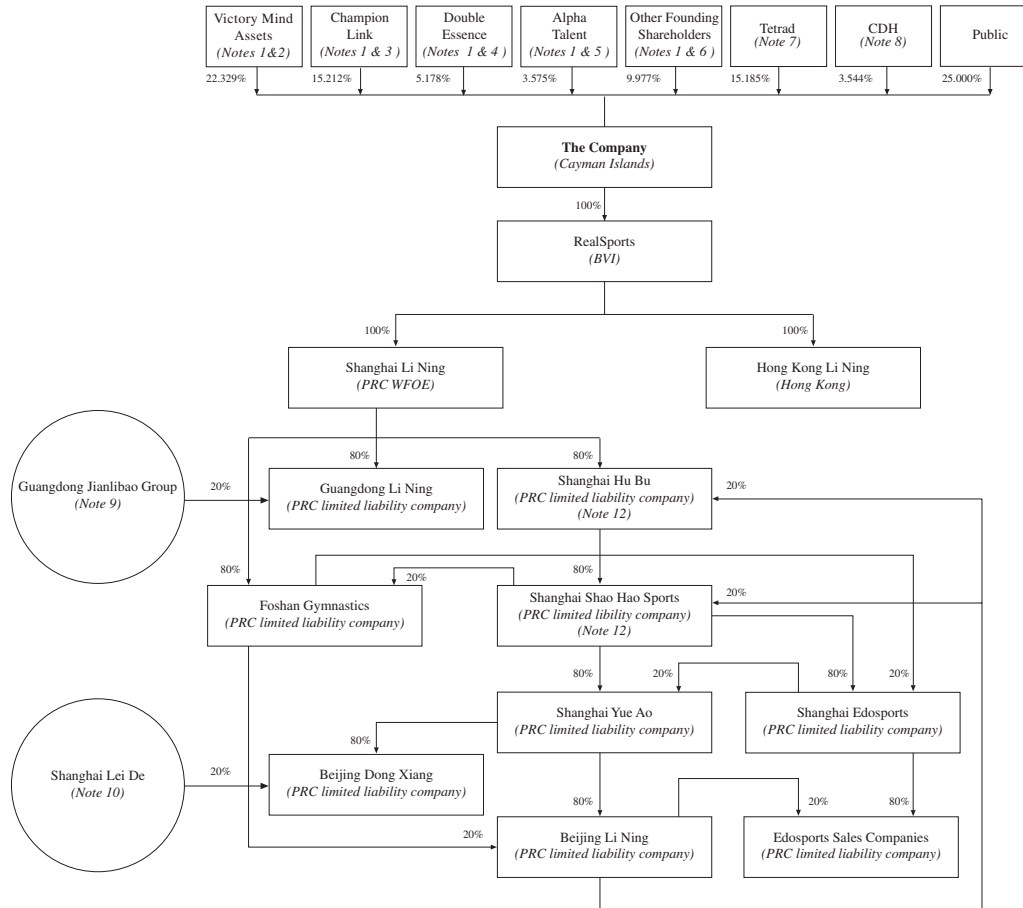
Beneficial owner of RealSports	Phase 3		Phase 4	
	Beneficial interest (%)	Attributable interests in RealSports (%)	Beneficial interest (%)	Attributable interests in RealSports (%)
China Sports:				
Mr. Li Ning (李寧), Mr. Li Chun (李進), Ms. Li Ying (李迎) and their spouses	97.091	80.748	97.091	60.865
Mr. Qin Qian (覃謙)	0.905	0.753	0.905	0.567
Mr. Lee Yue Hung Joseph (李譽鴻)	1.227	1.020	1.227	0.769
Mr. Lei Lin (雷林)	0.026	0.022	0.026	0.016
Mr. Li Zhi Qiang (李志強)	0.014	0.011	0.014	0.009
ABC Assets	0.737	0.613	0.737	0.462
Sub-total	100.000	83.167	100.000	62.688
Asia Lead:				
Mr. Zhang Zhi Yong (張志勇)	3.889	0.655	3.889	0.493
Mr. Meng Yong Li (孟永立)	2.661	0.448	2.661	0.338
Mr. Sun Yun Pei (孫運培)	3.275	0.551	3.275	0.416
Mr. Sun Ming (孫明)	4.093	0.689	4.093	0.519
Ms. Fu Xin (傅昕)	0.819	0.138	0.819	0.104
Mr. Sun Jian Jun (孫建軍)	0.819	0.138	0.819	0.104
Mr. Zhang Xiang Du (張向都)	2.251	0.379	2.251	0.286
Mr. Li Xiao Shuang (李小雙)	1.637	0.275	1.637	0.208
Ms. Li Yi Fang (李奕芳)	1.637	0.275	1.637	0.208
Mr. Liang Yong Gen (梁永根)	0.819	0.138	0.819	0.104
Mr. Hong Er Guang (洪爾廣)	1.637	0.276	1.637	0.208
Mr. Zhao Yu (趙瑜)	1.637	0.276	1.637	0.208
Mr. Zhang Jian (張健)	1.228	0.207	1.228	0.155
Mr. Fu Lu Ming (傅魯明)	14.411	2.426	14.411	1.828
Mr. Xie Tie Hua (謝鐵華)	14.411	2.426	14.411	1.828
Tianjin Long Hua:				
Mr. Tang Zi Gang (唐自剛)	12.419	2.090	12.419	1.576
Mr. Zheng Si Hua (鄭斯華)	1.996	0.336	1.996	0.253
Mr. Li Chun Yang (李春陽)	2.750	0.463	2.750	0.349
Mr. Huang Li Ping (黃力平)	0.577	0.097	0.577	0.073
Tianjin Hua Bao Wei:				
Mr. Chen Yi Hong (陳義紅)	16.736	2.817	16.736	2.123
Ms. Liu Pei Ying (劉培英)	2.953	0.497	2.953	0.375
ICH	7.345	1.236	7.345	0.932
Sub-total	100.000	16.833	100.000	12.688
Tetrad:		–		19.965
CDH:		–		4.659
GRAND TOTAL		100.000		100.000

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SHAREHOLDING, CORPORATE AND OPERATING STRUCTURE

Shareholding and corporate structure

The following chart sets forth our shareholding and corporate structure immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised).



Notes:

1. As part of the Reorganisation, the entire interests of China Sports and Asia Lead in RealSports have been exchanged into interests in the Shares and distributed, at the direction of China Sports and Asia Lead, to Victory Mind Assets, Champion Link, Double Essence, Alpha Talent, Other Founding Shareholders and the Vendors, ABC Assets and ICH.
2. Following the completion of the Reorganisation, Victory Mind Assets is beneficially owned as to 62.106% by Mr. Li Ning and as to 37.894% by Mr. Li Chun (the brother of Mr. Li Ning). Victory Mind Assets will own 220,174,000 Shares following completion of the Share Offer.
3. The entire interest in Champion Link 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. Champion Link will own 150,000,000 Shares following completion of the Share Offer.

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4. Double Essence is beneficially owned by Ms. Li Ying (the sister of Mr. Li Ning), and her spouse, Mr. Zhao Jian Guo, on an equal basis. Double Essence will own 51,060,000 Shares following completion of the Share Offer.
5. Alpha Talent is established and beneficially owned by Mr. Li Ning for the purpose of holding 35,250,000 Shares following completion of the Share Offer under the Employee Share Purchase Scheme. Pursuant to the Employee Share Purchase Scheme adopted by Alpha Talent on 5 June, 2004, it has granted options to purchase Shares held by it to our key employees by Mr. Li Ning. No further options will be granted by Alpha Talent under the Employee Share Purchase Scheme from the date of this prospectus and ending on the date which is six months from the date of Listing. The options granted are subject to different vesting and lock-up periods. Further information as to the grantees of such options and the vesting and lock-up periods are set forth in the paragraph headed “Employee share purchase scheme set up by Mr. Li Ning” in Appendix VI to this prospectus.
6. The shareholding of the Other Founding Shareholders immediately following completion of the Share Offer are set forth below:

Name	Number of Shares	% of shareholding (assuming that the Over- allotment Option is not exercised)
Mr. QIN Qian (覃謙)	4,254,000	0.431%
Mr. LEE Yue Hung Joseph (李譽鴻)	5,768,000	0.585%
Mr. LEI Lin (雷林)	122,000	0.012%
Mr. LI Zhi Qiang (李志強)	66,000	0.007%
Mr. ZHANG Zhi Yong (張志勇)	3,700,000	0.375%
Mr. MENG Yong Li (孟永立)	2,532,000	0.257%
Mr. SUN Yun Pei (孫運培)	3,116,000	0.316%
Mr. SUN Ming (孫明)	3,894,000	0.395%
Ms. FU Xin (傅昕)	780,000	0.079%
Mr. SUN Jian Jun (孫建軍)	780,000	0.079%
Mr. ZHANG Xiang Du (張向都)	2,142,000	0.217%
Mr. LI Xiao Shuang (李小雙)	1,558,000	0.158%
Ms. LI Yi Fang (李奕芳)	1,558,000	0.158%
Mr. LIANG Yong Gen (梁永根)	780,000	0.079%
Mr. HONG Er Guang (洪爾廣)	1,558,000	0.158%
Mr. ZHAO Yu (趙瑜)	1,558,000	0.158%
Mr. ZHANG Jian (張健)	1,168,000	0.118%
Mr. FU Lu Ming (傅魯明)	13,714,000	1.391%
Mr. XIE Tie Hua (謝鐵華)	13,714,000	1.391%
Mr. TANG Zi Gang (唐自剛)	11,818,000	1.199%
Ms. ZHENG Si Hua (鄭斯華)	1,900,000	0.193%
Mr. LI Chun Yang (李春陽)	2,616,000	0.265%
Mr. HUANG Li Ping (黃力平)	550,000	0.056%
Mr. CHEN Yi Hong (陳義紅)	15,926,000	1.615%
Ms. LIU Pei Ying (劉培英)	2,810,000	0.285%
Sub-total	98,382,000	9.977%

7. Tetrad is wholly-owned by Government of Singapore Investment Corporation (Ventures) Pte. Ltd and will own 149,737,500 Shares following completion of the Share Offer. Mr. Lim Meng Ann, a non-executive Director, was appointed by Tetrad to the Board.
8. CDH will own 34,942,500 Shares following completion of the Share Offer. Mr. Stuart Schonberger, a non-executive Director, was appointed by CDH to the Board.

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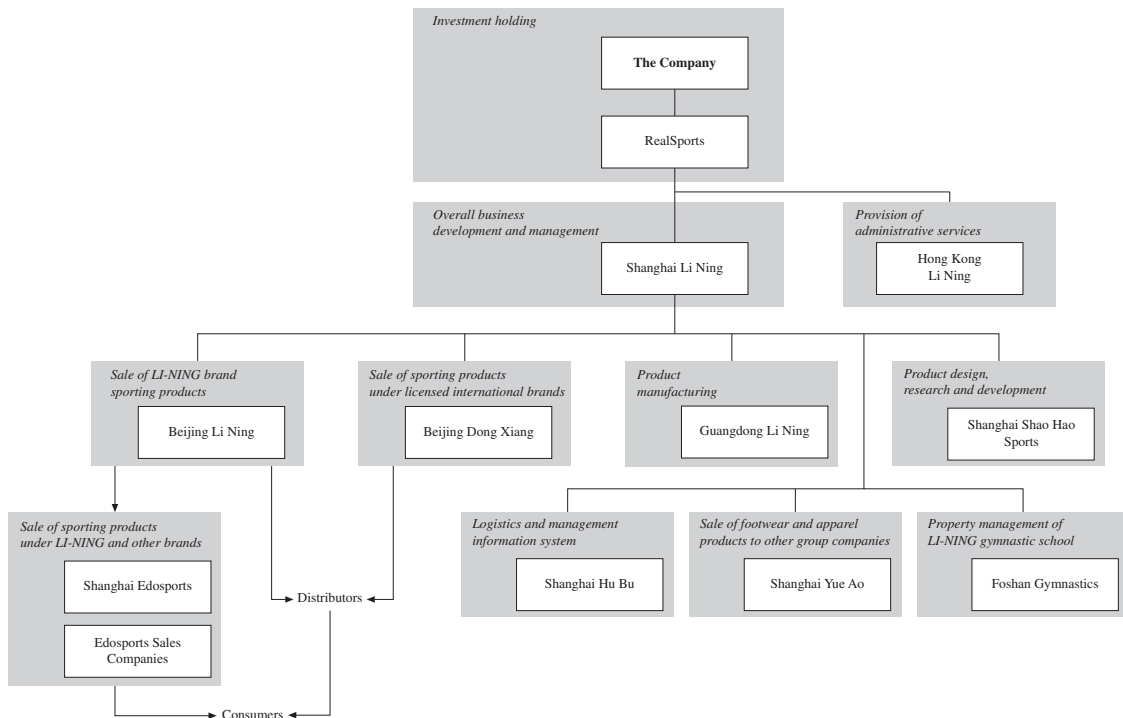
9. Guangdong Jianlibao Group is a limited liability company established in the PRC. Save as its being a substantial shareholder of Guangdong Li Ning, it is an Independent Third Party.
10. Shanghai Lei De Sports Development Co., Ltd. is a limited liability company established in the PRC, which is owned as to 49.1% by Mr. Chen Yi Hong, 41% by Mr. Chen Yi Liang and 9.9% by Ning Sheng Corporate Management (formerly known as Shanghai Li Ning Corporate Management Co., Ltd). It is a connected person of the Company. For information relating to the transactions between Shanghai Lei De Sports and the Company, please refer to section headed “Connected transactions” of this prospectus.
11. The current shareholding structure is set up to fulfill the requirement under the PRC Company Law:
 - to have at least two shareholders for a domestic limited liability company in the PRC;
 - a domestic limited liability company in the PRC shall not invest in aggregate more than 50% of its net asset value in the capital of other domestic limited liability companies in the PRC; and
 - to conform to the PRC rules and regulations of the relevant local Administration of Industry and Commerce.
12. As advised by our PRC legal advisers:
 - according to the Company Law of the PRC and other relevant rules and regulations under the PRC law, the shareholdings of Beijing Li Ning in Shanghai Hu Bu and Shanghai Shao Hao Sports do not constitute any reduction, repurchase or withdrawal of registered capital; and
 - such shareholding structure is not in violation of the Company Law of the PRC and other relevant rules and regulations under the PRC law.
13. Despite the cross-shareholdings among certain subsidiaries of Shanghai Li Ning, Shanghai Li Ning effectively owns all its subsidiaries except for Guangdong Li Ning and Beijing Dong Xiang.

The Shares owned by the Controlling Shareholders and the Other Founding Shareholders are subject to certain lock-up periods. Details of the lock-up periods are set forth under the section headed “Controlling Shareholders, Substantial Shareholders and Other Founding Shareholders” in this prospectus.

There are no lock-up arrangements with regard to the Shares owned by Tetrad and CDH. Tetrad and CDH are financial investors and will regularly review their investments in us and make divestments as appropriate.


Operating structure

The following chart sets forth the principal operating activities and internal business functions of each member of the Group.



BRANDS AND PRODUCTS

LI-NING brand

The LI-NING brand is currently owned by us. The LI-NING logo “” is in the shape of the English letters “L” and “N” in red colour, resembling a flying flag, a flaming torch, a moving rhythm or the agility of a gymnast. It was designed to express youth, passion and vitality.

The LI-NING branded products are designed primarily for sports use, although they could also be used for casual or leisure purposes. We place considerable emphasis on high quality and innovative product design for the LI-NING brand.

We currently offer the following lines of LI-NING branded products:

- **Men’s series**, which features sports footwear and/or apparel designed for basketball, soccer, tennis, running, walking, cross training, swim-wear, outdoor, basic training and fitness, casual and comfort style, and other athletic and recreational uses.
- **Women’s series**, which features sports footwear and/or apparel designed for tennis, running, walking, cross training, aerobic, swim-wear, outdoor, basic training and fitness, fashionable city life-style, casual and comfort style, and other athletic and recreational uses.


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- **Fashionable series**, which features sports footwear and apparel designed to appeal to teenagers and young consumers.
- **Golf series**, which features a full selection of apparel for golf.
- **Accessories**, which are mainly classified into (i) apparel accessories, which include sports bags, socks, hats and glasses; and (ii) sports equipment, which include balls, rackets and other sports equipment.

The LI-NING branded footwear, apparel and accessories are often designed to complement each other, and are often marketed in “collections” of similar design or for specific purposes.

KAPPA brand

The KAPPA brand originated in Italy and is one of the leading sportswear and leisurewear brands in Europe. It is also the technical sponsor for various professional sports teams in Europe and South America. The KAPPA branded products include soccer-wear, ski-wear, rugby-wear, golf-wear, swimwear and tennis-wear.

The KAPPA logo “” resembles two persons sitting back to back.

The KAPPA brand is currently owned by the BasicNet Group. The BasicNet Group is the title holder of the Kappa, Robe di Kappa and other trademarks, through which it operates in the sports and leisure apparel, footwear and accessories sector. Its activities consist of enhancing the value of owned trademarks and distributing the related products through a global network of licensee and independent companies. Pursuant to the KAPPA Licence Agreements, we are the exclusive distributor of a full line of KAPPA branded products and the licensee of the KAPPA brand in the PRC and Macau, and have the right to use certain business and commercial know-how created and regularly updated by the BasicNet Group as well as, certain technical know-how related to the design, industrialisation, manufacture and marketing of the KAPPA branded products bearing the KAPPA brand.

SALES

General

The tables below show certain breakdowns regarding our turnover for the Track Record Period.

Breakdown of turnover by product category, brand and type of sales

	For the year ended 31 December,					
	2001		2002		2003	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
Footwear	288,341	39.2	349,608	36.5	443,811	34.8
Apparel	385,425	52.5	500,131	52.2	658,649	51.6
Accessories	61,169	8.3	108,266	11.3	173,764	13.6
Total	<u>734,935</u>	<u>100.0</u>	<u>958,005</u>	<u>100.0</u>	<u>1,276,224</u>	<u>100.0</u>

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	For the year ended 31 December,					
	2001		2002		2003	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
LI-NING brand	734,935	100.0	944,269	98.6	1,236,166	96.9
KAPPA brand	–	–	13,736	1.4	40,058	3.1
Total	734,935	100.0	958,005	100.0	1,276,224	100.0

	For the year ended 31 December,					
	2001		2002		2003	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
PRC market						
Distributor sales	567,388	77.2	750,715	78.4	995,067	78.0
Concession sales	99,697	13.5	115,564	12.1	132,699	10.3
Retail store sales	63,639	8.7	72,133	7.5	111,720	8.8
International markets	4,211	0.6	19,593	2.0	36,738	2.9
Total	734,935	100.0	958,005	100.0	1,276,224	100.0

Breakdown of turnover by geographical region

	Notes	For the year ended 31 December,					
		2001		2002		2003	
		RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
LI-NING brand							
PRC market							
– Beijing and Shanghai		80,534	11.0	96,123	10.1	99,982	7.8
– Central region	1	98,011	13.3	120,502	12.6	164,743	12.9
– Eastern region	2	137,380	18.7	184,969	19.3	261,956	20.6
– Southern region	3	84,309	11.5	112,897	11.8	152,031	11.9
– Southwestern region	4	60,458	8.2	90,613	9.5	122,588	9.6
– Northern region	5	141,134	19.2	161,438	16.8	193,625	15.2
– Northeastern region	6	96,914	13.2	120,788	12.6	168,827	13.2
– Northwestern region	7	31,984	4.3	37,346	3.9	35,676	2.8
International markets		4,211	0.6	19,593	2.0	36,738	2.9
KAPPA brand							
PRC market							
		–	–	13,736	1.4	40,058	3.1
Total		734,935	100.0	958,005	100.0	1,276,224	100.0

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Notes:

1. Central region includes Hubei, Hunan and Jiangxi.
2. Eastern region includes Zhejiang, Jiangsu and Anhui.
3. Southern region includes Guangdong, Guangxi, Fujian and Hainan.
4. Southwestern region includes Sichuan, Chongqing, Guizhou, Yunnan and Tibet.
5. Northern region includes Shandong, Hebei, Henan, Tianjin, Shanxi and Inner Mongolia.
6. Northeastern region includes Liaoning, Jilin and Heilongjiang.
7. Northwestern region includes Shaanxi, Xinjiang, Gansu, Qinghai and Ningxia.

Sales operation

We coordinate our domestic and international sales efforts from our sales headquarters in Beijing, the PRC. We also utilise our 13 regional sales subsidiaries throughout the PRC in Beijing, Shanghai, Tianjin, Shenyang, Shijiazhuang, Zhengzhou, Jinan, Nanjing, Hangzhou, Wuhan, Changsha, Guangzhou and Nanning, to solicit domestic sales.

PRC market

For the PRC market, we sell our products to our distributors who operate franchised LI-NING and KAPPA retail outlets under our supervision. We also sell directly to retail consumers, principally through our directly-managed LI-NING and KAPPA retail outlets.

As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. We deal with our distributors on non-exclusive basis and we generally select our distributors based on the following criteria:

- possession of experience in retail of sporting goods;
- possession of appropriate retail outlets;
- expected sales volume; and
- sufficient financial resources.

Our distributors and their LI-NING and KAPPA franchised retail outlets are obliged to observe our retail procedures and policies from time to time in respect of outlet decoration, marketing, operations and customer service.

As at 31 May, 2004, we also operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands.

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International markets

We focus our international sales of LI-NING branded products in Italy, Spain and Russia. We also sell to independent distributors which export to countries and territories including Bahrain, Belize, Bulgaria, Colombia, Costa Rica, Ecuador, El Salvador, Greece, Guatemala, Honduras, Kuwait, Nicaragua, Oman, Panama, Portugal, Qatar, Saudi Arabia, South Korea, United Arab Emirates and Venezuela.

Distributor ranking system

We adopt a ranking system for admitting and categorising our existing distributors. Based on this system, we create incentives for our distributors by ranking each of them on a scale from one to five. A pre-determined discount rate and/or rate of rebate is applicable to each classification. The grading criteria are principally based on sales volume, sales growth, distribution network and ability to complete and implement orders placed with us.

Retail pricing policies

We adopt a uniform suggested retail price for each product across the PRC market. Our distributors and retail outlets have certain discretion, with our prior approval, to determine discounted prices in relation to product promotions and clearance of certain slow-moving or out-of-season items.

In determining the prices of our products, we usually take into account the prevailing market demand and supply, cost of design, cost of raw materials and production and prices set by competitors for similar items.

Seasonality

We experience seasonal fluctuations in sales volume during the year and generally, we record higher sales in August, September and December and lower sales in May. We respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories. We aim to influence consumer preferences through advertising and marketing.

Sales, retail and support staff

As at the Latest Practicable Date, our sales and related staff force were as follows:

	Number of employees
Sales and marketing	376
Retail	2,162
Logistics and management information system support	182

Our sales representatives are responsible for providing product information to distributors regarding the features of our products and assisting in providing users feedback for new product development and merchandising efforts.

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Advance ordering programme

We hold two to three major sales fairs for our distributors each year, usually in March and September, to exhibit new product collections for Autumn/Winter and Spring/Summer seasons, respectively. During these sales fairs, we make use of our advance ordering programme, which allows our distributors to order five to six months in advance of delivery and their orders will generally be delivered within a set time period at a fixed price. For each of the Track Record Periods, approximately 82%, 77% and 81% of our distributor sales were derived from our advance ordering programme, respectively.

Although our advance ordering programme permits changes to orders following the order deadline, we believe our backlog of advanced orders to be firmly based upon historical data. During the Track Record Period, approximately 86% of these futures and advance orders were fulfilled in each time period. Thus, we use the backlog of futures orders as our basis for merchandising and production schedule.

In addition to our advance ordering programme, we also permit ad-hoc orders from our distributors for certain fast-moving and popular items.

Largest customers

Our major customers are our distributors. Most of our customers, including our five largest customers, have had an established business relationship with us for more than 5 years. We believe that our ability to maintain customers' loyalty is vital to our success. The table below sets out the percentage of total turnover from our five largest customers and our largest customer during the Track Record Period.

	For the year ended 31 December,		
	2001	2002	2003
	<i>% of total turnover</i>	<i>% of total turnover</i>	<i>% of total turnover</i>
Five largest customers	12.9	13.9	13.7
Largest customer	4.3	4.2	4.3

All of the above five largest customers are Independent Third Parties and none of the Directors, nor any Shareholder or their respective associates (who or which to the knowledge of the Directors) who own more than 5% of the issued Shares immediately following completion of the Share Offer (assuming the Over-allotment Option is not exercised) has any interests in any of our five largest customers.

Payment terms

Sales to domestic PRC distributors are generally settled in Renminbi by open credit, or cash or bank transfer on delivery. Sales made in our retail stores are generally settled by customers in Renminbi by cash, credit cards or debit cards. Sales made in our concessions are collected by department stores and are paid to us at a price calculated by deducting the relevant concession rate from retail price, normally in the month immediately after which the sales are made.

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Sales to international distributors through export agents are generally denominated in Renminbi and settled by bank transfer.

The table below sets out the percentage of our total turnovers by payment method during the Track Record Period.

Percentage of total turnovers by payment method

	For the year ended 31 December,		
	2001	2002	2003
	<i>% of total turnover</i>	<i>% of total turnover</i>	<i>% of total turnover</i>
Open credit	91.0	91.8	91.3
Cash or bank transfer on delivery	9.0	8.2	8.7
	<hr/>	<hr/>	<hr/>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Credit control

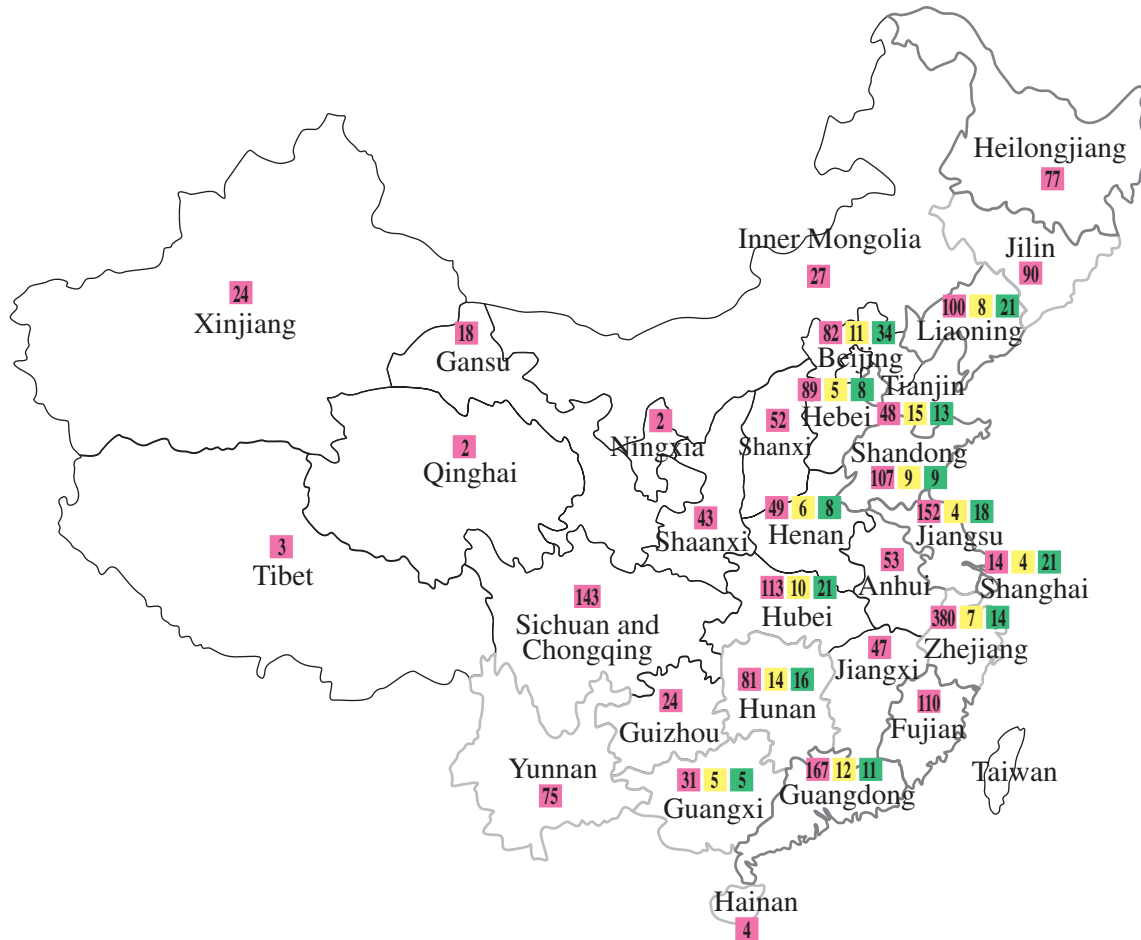
For receivables from distributors, credit periods are generally determined according to volume of their purchases, their credit history and years of relationship with us and may vary from 30 to 180 days. We closely monitor outstanding amounts due from distributors and make changes to their relevant credit terms in light of the local market conditions. For receivables from department stores/shopping malls in respect of sales made in our concessions, sales proceeds are collected by department stores/shopping malls and settlement of our sales (the sum of which is calculated by deducting the relevant concession rate from retail price) normally occurs within an average of 60 days from the end of the month during which the sales are made. For each of the Track Record Periods, our average accounts receivable turnover were approximately 25 days, 27 days and 29 days, respectively.

For the two years ended 31 December, 2002, our policy on provision on bad and doubtful debts was to make general provision of 0.5% of gross balance in account receivables, and to make special provision for account receivables with specific collectivity problems. For the year ended 31 December, 2003, we adopted a more stringent policy on provision on bad and doubtful debt to make 100% specific provision on balances aged over six months, on top of specific doubtful accounts. Accordingly, provision on bad and doubtful debts was approximately RMB14.9 million for the year ended 31 December, 2003, compared to approximately RMB75,000 and approximately RMB1.9 million in respect of each of the two years ended 31 December, 2002.

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DISTRIBUTORSHIP AND RETAIL NETWORK

We have established an extensive distributorship and retail coverage in the PRC. We have a prominent network of franchised retail outlets operated by our distributors and retail stores and concessions operated by us. The following map shows the geographical distribution of our franchised and directly-managed retail outlets in the PRC as at 31 May, 2004.



 Franchised LI-NING and KAPPA retail outlets	Total	2,207
 Directly-managed LI-NING and KAPPA retail stores		110
 Directly-managed LI-NING and KAPPA concessions		199

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Location	Number of franchised retail outlets		Number of directly-managed retail stores		Number of directly-managed concessions		Total
	LI-NING brand	KAPPA brand	LI-NING brand	KAPPA brand	LI-NING brand	KAPPA brand	
- Beijing	65	17	11	-	34	-	127
- Shanghai	1	13	4	-	20	1	39
<i>Central region</i>							
- Hubei	111	2	10	-	15	6	144
- Hunan	81	-	14	-	15	1	111
- Jiangxi	44	3	-	-	-	-	47
<i>Eastern region</i>							
- Zhejiang	370	10	7	-	14	-	401
- Jiangsu	144	8	4	-	18	-	174
- Anhui	51	2	-	-	-	-	53
<i>Southern region</i>							
- Guangdong	146	21	8	4	9	2	190
- Fujian	104	6	-	-	-	-	110
- Guangxi	28	3	5	-	5	-	41
- Hainan	4	-	-	-	-	-	4
<i>Southwestern region</i>							
- Sichuan and Chongqing	132	11	-	-	-	-	143
- Guizhou	21	3	-	-	-	-	24
- Yunnan	67	8	-	-	-	-	75
- Tibet	3	-	-	-	-	-	3
<i>Northern region</i>							
- Shandong	100	7	9	-	9	-	125
- Hebei	86	3	5	-	8	-	102
- Henan	45	4	6	-	8	-	63
- Tianjin	38	10	15	-	13	-	76
- Shanxi	50	2	-	-	-	-	52
- Inner Mongolia	25	2	-	-	-	-	27
<i>Northeastern region</i>							
- Liaoning	93	7	8	-	16	5	129
- Jilin	90	-	-	-	-	-	90
- Heilongjiang	72	5	-	-	-	-	77
<i>Northwestern region</i>							
- Shaanxi	43	-	-	-	-	-	43
- Xinjiang	24	-	-	-	-	-	24
- Gansu	18	-	-	-	-	-	18
- Qinghai	2	-	-	-	-	-	2
- Ningxia	2	-	-	-	-	-	2
Total	2,060	147	106	4	184	15	2,516

Franchised retail outlets operated by our distributors

We believe that franchised retail outlets operated by our distributors are effective for establishing our retail coverage and enhancing public recognition of our brands without utilising a substantial amount of our own resources.

Selection criteria for distributors

Generally, the applicants must have at least two years experience in sales and distribution of sporting goods or related industry, a detail plan on opening a retail outlet in the near future and sufficient financial resources to implement the plan.

Location

As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets in all the provinces and cities directly managed by the central government in the PRC. Among these franchised retail outlets, 2,060 outlets sell the LI-NING branded products and 147 outlets sell the KAPPA branded products.

Operations

We supervise franchised retail outlets operated by our distributors. The retail outlets are required to be renovated and decorated in accordance with our requirements and specifications with an aim to promote and unify the image of our brands and consumers' shopping experience. We provide personnel training to retail outlets operated by our distributors. Our distributors are required to comply with retail procedures and policies stipulated by us in respect of decoration, marketing, operations and customer service. In particular, the layout and the design of the franchised retail outlets require our approval in order to be consistent with the brand image and we will invite the key personnel of the distributors to attend our in-house training courses. In addition, training materials will be provided to the distributors for them to conduct their in-house training and a operation manual will also be provided to the distributors as a guideline on the operation of their retail outlets. Furthermore, our staff from our sales department will carry out periodic and ad hoc inspections to ensure that the quality of services among franchised retail outlets and those operated by us are consistent.

Retail stores and concessions operated by us

We operate retail stores and concessions for the LI-NING and KAPPA brands in the PRC. Retail stores are shops operated by way of property leasing arrangements. Concessions are counters or sales areas operated or occupied in department stores or shopping centres on concessionary basis. The Directors believe that having our directly-managed retail outlets can serve as model shops for brand promotion and attract potential distributors to carry our products in order to establish its distributorship network. Furthermore, our directly-managed retail outlets can also serve to maintain the presence of the brand when we have to downsize the number of our distributors during the downturn of the economy.

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Going forward, although our retail strategy will continue to focus on expanding our franchised retail outlets operated by our distributors in order to enhance our market share, competitiveness and the reach of our products without utilising a substantial amount of our own resources, we will selectively open flagship stores in prime locations in first and second-tier PRC cities for brand promotional purposes.

Stores and concessions

We lease all of our directly-managed retail stores from Independent Third Parties at market rental rates. The terms of such leases or tenancies generally range from one to three years.

Our directly-managed concessions are based on concessionary arrangements with department stores or shopping centres, all being Independent Third Parties. Sales made in concessions are payable to us by the department stores or shopping centres at a price calculated by deducting the relevant concession rate from retail price (which usually equate to a percentage of the monthly sales made through that relevant concession). Payments of the net sales proceeds are normally collected in the month immediately after which the sales were made. During the Track Record Period, we have not experienced any default in collecting sales proceeds from the department stores or shopping centres for our concessions.

Location

As at 31 May, 2004, we directly managed a total of 309 retail outlets (in the form of retail stores and concessions) in Beijing, Shanghai and in 11 provinces, in the PRC. Among these directly-managed outlets, 106 retail stores and 184 concessions sell the LI-NING branded products and 4 retail outlets and 15 concessions sell the KAPPA branded products.

Format

Our retail stores and concessions are decorated to create a pleasant and sporty shopping environment consistent with the image of our brands. The size of our retail outlets range from approximately 3 sq.m. to approximately 620 sq.m..

Operations

We have well-established and unified operating policies and procedures for our retail stores and concessions. Inventories are properly stored and managed to minimise damages. The operation of retail stores or concessions are generally overseen by the sales subsidiary in the respective region.

Selection procedures for establishing new retail outlets

We believe selecting the appropriate location in respect of new retail stores and concessions is crucial to the success of the operation of our own retail outlets. In the selection process, we generally consider the following factors:

- shopping habits and needs, shopping patterns and spending power of the target population at the proposed location;

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- analyses of population density, demographic patterns, potential population growth, development potential and future development trends, pedestrian flow and traffic;
- geographical location, availability of lettable area, adjacent buildings, roads and expressways, routes and stations of public transport;
- estimated initial capital investment and return on capital invested;
- marketing or strategic benefits; and
- competition in the surrounding area of the proposed location.

Based on the above factors, we conduct a thorough analysis of the proposed location and formulate projections in respect of investment and sales before deciding whether to proceed with the plan of establishing a new retail store or concession.

Customer service

We put significant emphasis on ensuring a high level customer satisfaction and we aim to provide friendly after-sale customer services. We provide retail staff with training in customer service and product knowledge through in-house training courses. Retail staff for our own outlets and franchised outlets are also trained to assist consumers in merchandise selection and fitting. From time to time, the key personnel of the distributors, such as the shop manager, are invited to participate in in-house training course provided by us. Training materials are also distributed to the distributors for them to conduct their own in-house training. Retail customers may return their purchases for full refund or exchange for alternative goods within a certain period after purchase if our merchandise is found to be unsatisfactory due to defects caused by us. Consumers may also utilise our website and customer hotline to provide feedback and complaints. We consider consumer loyalty to be imperative in our industry and one of the principal factors for our success.

SUPPLY CHAIN MANAGEMENT

We adopt a comprehensive supply chain management approach in respect of procurement, supplies, manufacturing and sub-contracting for our product lines.

We primarily plan our merchandising needs with reference to the volume of orders received under the advance ordering programme. We normally secure our sourcing requirements from the suppliers at an advanced stage once we have confirmed orders from the advance ordering programme.

Procurement

The procurement team at each of our product units is responsible for:

- formulating merchandising plans in accordance with the orders from our distributors under the advance ordering programme and expected demand from our own retail stores and concessions;
- analysing the size of demand to determine the quantity of raw materials or semi-finished products;

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- allocating raw materials to our own manufacturing operation to meet the production schedule or arranging contract manufactures to procure raw materials from specified suppliers;
- ensuring the quality of the raw materials, semi-finished and finished products in order to fulfill our quality requirements;
- allocating finished products to our distributors and subsidiaries based on actual purchase order;
- providing feedback to our design team to evaluate and monitor existing and new products, and identifying popular and poorly performing items; and
- tracking inventory levels so as to minimise the risk of over-stocking of our raw materials and products.

In general, we utilise the following modes of procurement:

- **Direct Procurement:** we source raw materials directly from the suppliers. The sourced raw materials are provided to our own manufacturing operation for processing and manufacturing of our finished products. We settle the purchase directly with the suppliers; and
- **Designated Procurement:** we designate our contract manufacturers to source specific raw materials from designated suppliers for processing and manufacturing of our finished products. Our contract manufacturers settle the purchase with the suppliers.

All procurement of raw materials or supplies are performed in accordance with detailed specifications furnished by the operating unit and is subject to strict quality control standards.

Raw materials and supplies

The principal raw materials used in our footwear products are leather, nylon and rubber. The principal raw materials used in our apparel products are synthetics and cotton/synthetic blends. These raw materials can be obtained from a number of local sources and suppliers. We and our contract manufacturers purchase raw materials in bulk.

We believe that we have developed adequate substitute sources of raw materials for our products from PRC suppliers. We have established working relationships with approximately 70 suppliers and over 60 contract manufacturers. We have so far not encountered any disruption to our business as a result of shortage of raw materials or product supplies. We have not experienced any difficulties in sourcing raw materials or product supplies for our requirements. Given our established relationship with our suppliers and contract manufacturers, we do not envisage that we will experience any significant difficulties in obtaining supplies in the foreseeable future.

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Manufacturing

The processing and manufacturing of the majority of our sports apparel and all of our sports footwear and accessories are subcontracted to independent contract manufacturers in the PRC who are Independent Third Parties. We manufacture a small portion of our sports apparel in our own manufacturing facilities located in Sanshui, Guangdong, the PRC, representing 8.0%, 7.2% and 7.2% of our sales of sports apparel for each of the Track Record Periods, respectively.

Our own manufacturing operation

We operate our own manufacturing facilities for production of a small portion of our sports apparel products in Sanshui, Guangdong, the PRC.

	As at the Latest Practicable Date
Approximate site area (<i>sq.m.</i>)	23,330
Approximate gross floor area (<i>sq.m.</i>)	18,107
Approximate monthly production capacity (<i>pieces of garment</i>)	199,398
Number of operating staff	499

Currently, we are utilising approximately 90% of the production capacity of our manufacturing facilities in Sanshui, Guangdong, the PRC. During the Track Record Period, we did not have any major overhaul of our production facilities nor were there any significant accidents.

The cost structure of the self-manufactured products is similar to the price paid to subcontractors for similar products.

Sub-contracting

As at the Latest Practicable Date, we engaged a total of 65 contract manufacturers in the PRC, who are Independent Third Parties, for the processing and manufacturing of our products. Certain contract manufacturers of LI-NING branded products are also engaged to produce KAPPA branded products. None of the contract manufacturers work exclusively with us to produce our products.

Our procurement and merchandising staff monitor the operations of our contract manufacturers to ensure that their operational arrangement and production requirements comply with our quality requirements.

Our relevant product divisions enter into processing agreements with these contract manufacturers with respect to the quantity, specifications and other production particulars. Under the processing agreements, we agree to provide the designs, specifications of the products and the type of principal raw materials used, and to purchase the finished products. Generally, we provide ancillary materials to our contract manufacturers who have to source principal raw materials from designated suppliers for processing and manufacturing of our finished products.

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We believe that we maintain good working relationships with our contract manufacturers. The Directors believe that since there are a large number of footwear, apparel and accessories manufacturers available in the PRC, alternative contract manufacturers can be engaged within a short period of time to replace any existing ones, if required.

We will continue to engage contract manufacturers in the production of our products and contract manufacturers will remain as our major suppliers in the near future. As there is an abundant supply of contract manufacturers in the PRC and we will continue to focus on product development and brand management, we have no intention to expand our manufacturing operations in the foreseeable future.

Our manufacturing facilities in Sanshui, Guangdong, the PRC were set up in the early stage of business. It is one of our approved manufacturers and is also engaged in some sample production for us. We will continue to engage other contract manufacturers since our manufacturing facilities in Sanshui, Guangdong, the PRC cannot fulfil our production requirements.

Payment terms

We normally settle our purchases, which are denominated in Renminbi, by open credit.

Our suppliers generally grant us credit terms ranging from 30 to 60 days. For each of the Track Record Periods, our average trade payables turnover were approximately 48 days, 62 days and 75 days, respectively. The increase in average trade payable turnover over the Track Record Period demonstrates our ability to secure more favourable terms from our suppliers and sub-contractors.

Largest suppliers

Our major suppliers are authorised contract manufacturers. The table below sets out the percentage of total purchase from our five largest suppliers and our largest supplier during the Track Record Period.

	For the year ended 31 December,		
	2001	2002	2003
	<i>% of total purchases</i>	<i>% of total purchases</i>	<i>% of total purchases</i>
Five largest suppliers	47.9	36.4	34.1
Largest supplier	12.2	9.3	8.3

All of the above five largest suppliers are Independent Third Parties and none of the Directors nor any Shareholders or their respective associates (who or which to the knowledge of the Directors) who own more than 5% of the issued Shares immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised and without taking into account any Share that may be taken up under the Share Offer) has any interests in any of the above five largest suppliers.

BUSINESS

QUALITY CONTROL

We place considerable emphasis on the product quality. We have established a strict quality control system and a set of quality standards.

We have a team of 25 staff from our quality control department who perform quality control and sample checking on the merchandise manufactured by contract manufacturers in order to ensure that the quality of outsourced merchandises and those produced by us meet our quality standards. We also inspect all incoming materials and materials sourced by our contract manufacturers against specifications to ensure quality standards. In addition, whenever contract manufacturers are engaged by us for production, our procurement personnel visit the contract manufacturers and collect samples products produced by these manufacturers. The samples are then be examined by our relevant department. Our staff inspect the quality of the products in certain intermediate stages of the production process. Our staff also carry out on-site inspections at our contractors' factories regularly to check the progress of production against schedule and to ensure that the quality of the products is in accordance with the specifications and that delivery deadlines set by us are met. Prior to the delivery of the finished products, our staff carry out a final inspection of the finished products.

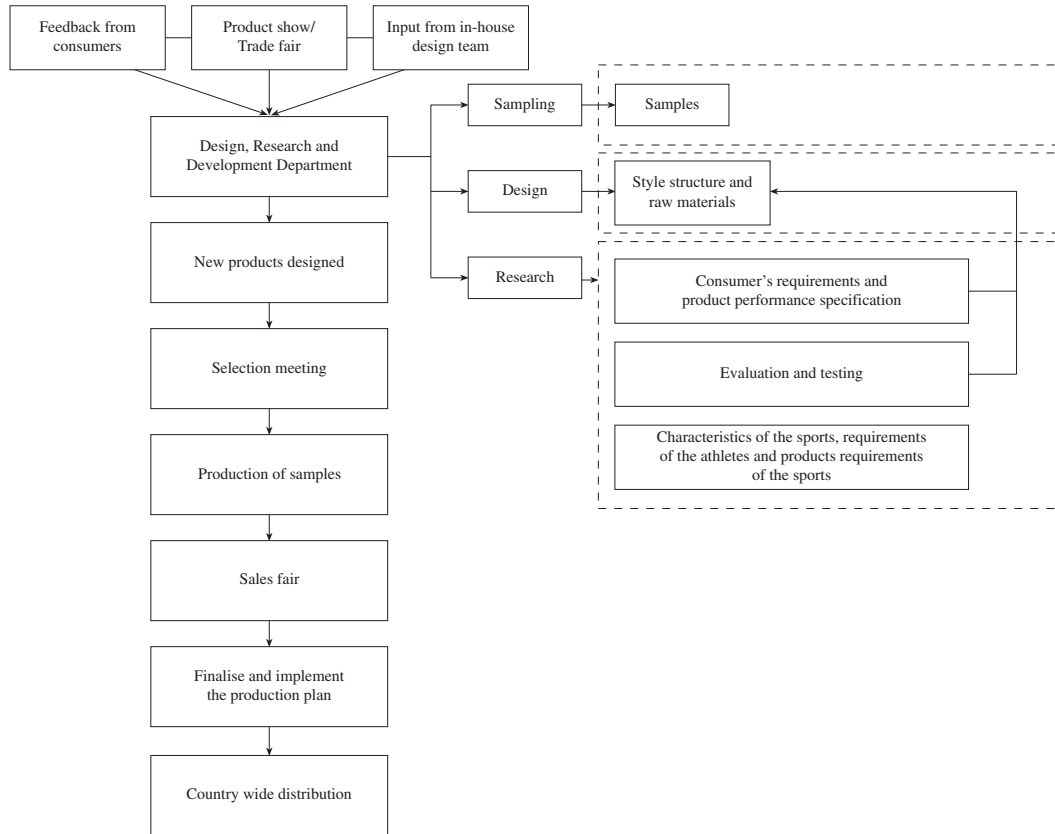
As a result of the quality control procedures adopted by us, the amount of goods returned by customers as a result of defects during the Track Record Period was negligible.

PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

We believe that our focus on research and development is a key factor in our past success and in ensuring future success. Technical innovation in the design of athletic apparel, footwear, equipment and accessories receive continued emphasis as we aim to produce products that aid athletic performance, maximise comfort, and reduce or eliminate injury. We may consult with athletes, coaches, trainers, equipment managers and other experts to research and review designs, materials and concepts for product improvement. We might also engage athletes to wear, test and evaluate products during the design and development process.

BUSINESS

Set forth below is a flow chart illustrating our regular procedures in relation to the launch of newly designed products:



New designs and products are developed at our design and development centres in Beijing and Foshan, Guangdong, the PRC. As at the Latest Practicable Date, we had over 43 in-house designers and 47 product development personnel. We also engage external designers from Europe to assist in our design work on contract basis. Our design team works closely with the sales and procurement teams in designing new products and in improving existing products. In creating new designs, the in-house design team first develops preliminary concepts and ideas which are then refined through discussion with sales and procurement teams by taking into account the reactions and sales records from our customers and other market information. We own all intellectual property rights including drafts and designs created by our design team. For each of the Track Record Periods, expenses on product design, research and development accounted for approximately 2.6%, 2.5% and 3.3%, respectively, of our total cost of sales.

BUSINESS

Product development of the LI-NING brand

The development process of LI-NING branded products mainly comprises four aspects:

Market:	Product development strategies and goals are identified by the marketing personnel through analyses of the market conditions, industry environment, competing brands, consumer surveys and historical sales statistics taking into account our overall business strategy and development plan. Annual development plans for various products are then formulated in accordance with such strategies and goals.
Product:	In accordance with the product development strategies, the production personnel set the production volume of various products pursuant to their analyses of the relevant historical product statistics such as textiles, templates and moulds, as well as, fast moving and obsolete products. They then identify the sample designs and formulate development plans with the designer team, material technicians and mould development personnel. Subsequently, the relevant departments proceed with the product design screening, initial sample selection, final sample selection and the product pricing and order undertaking.
Design:	Product drawings are produced by the designer team within the creative theme, colour scheme and range of textiles identified in accordance with analyses of the prevailing trends and the formulated product development plans.
Development:	The material technicians assist the designer team in conducting material development, sample production and cost analysis and control pursuant to the formulated product development plans. They will also put forward new technology or material application solutions.

Product development of the KAPPA brand

The development of KAPPA branded products can be divided into two parts: design work by the BasicNet Group and additional designs by us. Each year, the BasicNet Group provides over 2,000 product designs and drawings to its licensees throughout the world via the Internet. Separately, we also develop additional designs specifically for the particular demand of the PRC market. This is generally accomplished by contracted professional design houses since Beijing Dong Xiang does not have its own product development capabilities.

MARKETING AND PROMOTION

Our marketing and promotional strategy aims to enhance and reinforce our brand awareness and brand effectiveness, promote our products' culture and lifestyle, widen our customer base, and enable us to expand into new product categories.

BUSINESS

As at the Latest Practicable Date, our advertising and marketing team had 112 staff. Our advertising and marketing team is responsible for developing advertising plans for the PRC market, monitoring the effectiveness of promotional activities, and exploring new media and promotional activities, such as sponsoring sports and other community events.

During the Track Record Period, our marketing and promotional expenses ranged from approximately 9.2% to 12.6% of our total turnover. Media and advertising expenses represented the largest cost component of our marketing and promotional expenses, accounting for approximately 40% to 73% of our total marketing and promotional expenses during the Track Record Period. In the future, we intend to maintain an advertising and marketing budget of around 13% to 15% of our total turnover.

Media advertising

We utilise various media, such as television commercials, print media, as well as, indoors and outdoor advertisements in the PRC, to convey our brand image and product information to consumers. We also utilise our own Internet website for corporate and product promotional purposes. We engage independent international advertising consultants to produce and design the main themes for our advertising campaigns.

Our recent advertising series “Anything is possible” emphasises our belief in the limitlessness of human potential and that no sports record is unbreakable. Our theme of this advertising campaign is to link LI-NING’s brand image with the idea of boosting one’s self-esteem and public standing through sports and competition.

Sports sponsorship

We establish relationships with and sponsor major sports figures, sports teams and sports events in the PRC, as well as, sports teams overseas, with an aim to enhance and promote visibility for the LI-NING brand and create awareness of and promote sales of LI-NING branded footwear, apparel and accessories.

We focus our sports sponsorship efforts on major sports teams and sports events to enhance our public awareness, visibility and authenticity as a performance brand and key athlete icons who are at the pinnacle of their sports careers and exemplify distinct lifestyles and rising young stars and athletes who have demonstrated good prospects and potentials.

In the past, we have sponsored the following major sports events under the LI-NING brand:

- 1992 – the sportswear, footwear and sports bags for the Chinese delegation to the 25th Barcelona Olympic Games;
- 1996 – the Chinese delegation to the 26th Atlanta Olympic Games;
- 1998 – the Chinese delegation to the 18th Winter Olympic Games;
- 1998 – the China National League A Basketball Championship; and
– the National League Volleyball Championship;
- 2000 – the Chinese delegation to the 27th Sydney Olympic Games; and
– the National Volleyball Championship;
- 2001 – the Hebei delegation of the 9th National Games of China; and
- 2002 – the National Volleyball Championship.

We will also sponsor the Chinese delegation to the upcoming 28th Athens Olympic Games in 2004.

BUSINESS

In the past, we have sponsored the following major PRC sports teams and athletes under the LI-NING brand:

- Chinese National Table Tennis Team;
- Chinese National Gymnastics Team;
- Chinese National Acrobatics Gymnastics Team;
- Chinese National Competitive Rhythmic Gymnastics Team;
- Chinese National Youth Volleyball Team;
- Chinese National Diving Team;
- Chinese National Badminton Team;
- Chinese National Body Mechanics Team;
- Chinese National Shooting Team;
- Chinese National Fencing Team;
- Chinese National Archery Team;
- Chinese National Trampoline Team; and
- Chinese soccer star, Li Tie, playing for Everton (the English Premier League team) and the Chinese National Soccer Team.

During the Track Record Period, we have sponsored the following international sports teams under the LI-NING brand:

- Fédération Française de Gymnastique (Gymnastic Federation of France);
- Russian Delegation at 2001 Universiade;
- Spanish Women's Basketball Team; and
- Federación Española de Gimnasia (Gymnastic Federation of Spain).

We are currently a partner of the Chinese Olympic Committee (中國奧林匹克委員會).

During the Track Record Period, sports sponsorship accounted for approximately 2% to 11% of our overall marketing and promotional expenses.

Community services

We use our leading position in the PRC sporting goods industry to participate in community charity services. We donated sports apparel with value of more than RMB10 million to the Red Cross Society of China (中國紅十字會) in September 2003, and we donated sporting accessories with value of more than RMB240,000 to health professionals at Beijing Ditan Hospital (北京地壇醫院) during the SARS period in 2003. These services demonstrate our commitment to the society and to promoting sports.

Gymnastics training school

As part of our promotional resources, we operate the LI NING gymnastics school in Foshan, the PRC. The LI NING gymnastics school in Foshan, the PRC, started operations in January 1996 and is an indication of our community commitment to educate and promote the culture and idea of sportsmanship in the next generation. This school enrolls pre-school children for regular kindergarten with gymnastics classes and also holds extra-curricular gymnastics classes for pre-school and primary school children. It also hosts regular gymnastics competitions for children and youth in the nearby regions. The aim of the LI NING gymnastics school is to promote public interests in gymnastics and sportsmanship.

BUSINESS

MANAGEMENT INFORMATION SYSTEMS

We invest and place considerable emphasis on management information systems to improve our efficiency in product design and development, procurement, manufacturing, quality and inventory control, logistics and ultimate sales. During the Track Record Period, we have invested an aggregate of over RMB36 million in various information system hardware, software and related services.

We currently maintain a centralised computer information system network which fully integrates the functions of procurement, inventory management, distribution, sales, financial management and human resources management.

In respect of our procurement and manufacturing operations, we have installed a SAP Enterprise Resources Planning (ERP) system, which has enhanced the information flow between various department, strengthened the supply chain management, enhanced the decision making process and shortened the business cycle. All of these have enhanced our overall operational efficiency. In respect of our sales operations, we are in the process of installing a point-of-sale system in our own retail outlets and franchised retail outlets, which enable us to track our inventory and sales on a daily basis. This system allows management to make timely decisions in response to market conditions.

INVENTORY CONTROL AND LOGISTICS

We follow an inventory policy that seeks to ensure our franchised and directly-managed retail outlets have sufficient levels of finished goods to entice consumers, without leaving us with significant unsold items at the end of a season. We generally plan the merchandising and production schedule of our products in accordance with the backlog of advanced orders from our distributors and expected demand from our own retail outlets. We maintain finished goods inventory in our warehouses and deliver the goods to our distributors and our own retail outlets based on actual demand. We believe that appropriate level of inventories is necessary in the sporting goods industry to support our product sales through our extensive sales network.

Our computerised inventory control system keeps track of our inventory level. Manufacturing orders are implemented with the assistance of data collected from our advanced enterprise resources planning system based on projected demands. Finished products are centralised in our warehouses and distributed to our franchised or directly-managed retail outlets according to their requirements. There is no significant difference on inventory control and logistics on our franchised retail outlets and our directly-managed retail outlets. The inventories kept at our directly-managed retail outlets are owned by us while those kept at the distributors' outlets are sold to them. We also carry out stock counts periodically as a control measure to ascertain the existence of the inventory. As at the Latest Practicable Date, we have three warehouses located in Beijing, Shanghai and Sanshui, Guangdong, the PRC. Utilising our own delivery or external transportation services, finished products can reach the storages of any of our franchised or directly-managed retail outlets within 5 days.

Average inventory turnover for the Track Record Periods remained stable at 143 days in 2003, 141 days in 2002 and 141 days in 2001.

Although our inventory is relatively high as compared to the industry average, in order to avoid any stock-out situation, it is our strategy to keep sufficient inventories for our new retail points as the number of our retail points continues to increase. Furthermore, the inventory turnover for the new retail points is usually relatively low as it takes time to establish their clientele.

BUSINESS

Our policy on provision for obsolete and slow-moving inventories is to make provisions based on inventory ageing. During the Track Record Period, our policy on provisions for obsolete and slow-moving inventories were as follows:

	Two years ended 31 December, 2002		Year ended 31 December, 2003			Others (Note)
	Footwear	Apparel	Footwear	Apparel	Accessories	
Aged within 1 year	–	–	–	–	–	0.5%
Aged between 1 and 2 years	–	30%	–	30%	30%	0.5%
Aged between 2 and 3 years	10%	50%	10%	50%	50%	0.5%
Aged between 3 to 4 years	30%	100%	30%	100%	100%	0.5%
Aged between 4 to 5 years	50%	100%	50%	100%	100%	0.5%
Aged above 5 years	50%	100%	100%	100%	100%	0.5%

Note: Others include display cupboards and promotional products.

In addition, recommendations on further specific provisions will be made based on assessment of the expected utilisation, saleability and realisation of different types of raw materials.

Our business is also subject to seasonal trend. However, as our inventory provision is assessed based on the aging analysis of the inventory balance as at each year-end date, seasonal factors are levelled off. Accordingly, on a year-to-year basis, the Directors believe that seasonal factors did not have any material impact on the inventory level and related stock provisions during the Track Record Period.

Provisions for obsolete and slow-moving inventories were approximately RMB11.9 million for the year ended 31 December, 2003, as compared to approximately RMB2.7 million and write-back of provision of approximately RMB0.9 million in respect of each of the two years ended 31 December, 2002.

PRODUCT LIABILITY AND INSURANCE COVERAGE

Our insurance coverage includes social insurance and insurance for damage to production facilities and certain assets arising from natural disasters.

None of our members maintains general product liability insurance for any of our products. Nevertheless, the Directors believe all products sold by us comply with the specific product liability insurance requirements from time to time required by the relevant PRC laws. During the Track Record Period, we have not received any material claim from customers and/or end users relating to any liability arising from or relating to the use of our products.

INTELLECTUAL PROPERTY RIGHTS

We currently use the LI-NING brand and the KAPPA brand for marketing and sales of our sporting goods.

LI-NING brand

We currently own the LI-NING brand, details of which are set forth in the paragraph headed “Intellectual property rights” in Appendix VI to this prospectus.

KAPPA brand

Pursuant to the KAPPA Licence Agreements, we have the exclusive right to use the KAPPA branded and related product know-how from the BasicNet Group in the PRC and Macau. We have the right to sub-contract or outsource the manufacture of the KAPPA branded products to third party manufacturers. During the Track Record Period, most of the KAPPA branded products were manufactured by us through sub-contracting arrangements with only a minor portion of such products being sourced directly from the authorised dealers of KAPPA in Hong Kong.

Principal terms of the KAPPA Licence Agreements are set forth below:

Distribution and licence agreement

Pursuant to a distribution and licence agreement dated 14 February, 2002, Basic Properties, a member of the BasicNet Group (the “Licensor”), granted to us:

- an exclusive right to distribute certain sporting products of the Licensor in the PRC (including Macau but excluding Hong Kong and Taiwan) (the “Territory”) and a licence to use certain trademarks (more particularly detailed under “Trademark licence contract” below) in connection therewith; and
- a non-exclusive sub-licence for the use of certain sponsorship trademarks.

A summary of the principal terms of the agreement is as follows:

- the agreement is for a term of five years and eleven months from 1 February, 2002 to 31 December, 2007, which may be renewed for a further term of five years;
- we have the exclusive right to distribute the following licensed products of the Licensor: (i) apparel and accessories; (ii) soccer balls; (iii) sports bags; and (iv) footwear and a licence to use the following trademarks in connection therewith:



BUSINESS

- we agree to pay a yearly guaranteed minimum royalty for the licensed trademarks. In addition, we agree to pay the difference (if any) based on a specified percentage between the net turnover arising from our sale of the licensed products in a particular year and the guaranteed minimum royalties for that year. Failure to make payment of the royalties due would release the BasicNet Group from performance of its obligations under the agreement in addition to its right to recover the amount due with interest;
- we agree to pay a yearly guaranteed minimum contribution for marketing communication initiatives, such as sponsorship of world famous sports teams or athletes, carried out by the Licensor;
- we agree to spend a yearly specified amount (initially based on a specified amount and subsequently to be based on a certain percentage of the turnover) and implement advertising and local professional sports sponsorship activities for the licensed products in the Territory;
- we have the non-exclusive sub-licence for use of certain specified sponsorship trademarks (which identify the sports teams or clubs sponsored from time to time by the Licensor) for the licensed products and in connection with the licensed trademarks in the Territory. Royalties are payable by us on the use of the relevant sponsorship trademarks; and
- a performance guarantee is provided by our Shanghai Li Ning in respect of our performance under the agreement.

Since the entering of the distribution and licence agreement on 14 February, 2002, most of the KAPPA branded products distributed by Beijing Li Ning (and subsequently by Beijing Dong Xiang) were manufactured by Beijing Li Ning through sub-contracting arrangements. Only a small portion of the products distributed by Beijing Li Ning were purchased from the authorised dealer of KAPPA in Hong Kong of approximately RMB20,000 and RMB356,000 for the two years ended 31 December, 2003, respectively.

Know-how licence agreement

Pursuant to a know-how licence agreement dated 14 February, 2002, BasicNet Properties, a member of the BasicNet Group (the “Licensor”), granted to us the exclusive rights to use and exploit its know-how including designs, production technology and other updated information relating to apparel and accessories, soccer balls, sports bags, and footwear of the KAPPA branded products in connection with the trademarks covered by the distribution and licence agreement. We are entitled to manufacture products for sale in the Territory as defined in the distribution and licence agreement based on such designs and production technology through sub-contracting arrangements provided that the products manufactured shall comply with the technical know-how, specifications, design and models created by the BasicNet Group. The principal terms of the agreement are as follows:

- our net turnover will reach the annual amount specified in the agreement;
- the agreement is for a term of five years and eleven months from 1 February, 2002 to 31 December, 2007, which may be renewed for a further term of five years subject to satisfaction of certain conditions;

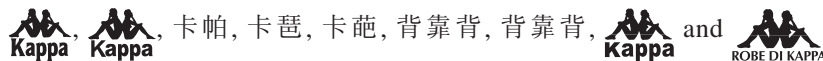
BUSINESS

- we have to pay a yearly guaranteed minimum royalty and (after the first year) shall additionally pay the difference (if any) between the total royalty specified in a particular year and the yearly guaranteed minimum royalty pertaining to the same year. Our obligations to pay royalties under the know-how licence agreement are in addition to our obligations to pay royalties under the distribution and licence agreement; and
- a performance guarantee is provided by our Shanghai Li Ning in respect of our performance under the agreement.

Trademark licence contract

For the purpose of registration of the licensed trademarks and pursuant to a trademark licence contract dated 15 July, 2003, Basic Properties, a member of the BasicNet group (the “Licensor”), granted to us the right to use the following trademarks which have been registered in the PRC. Our rights under the trademark licence contract are not additional to our rights under the distribution and licence agreement described above. The terms of our right to use the trademarks granted to us are set forth in the distribution and licence agreement. A summary of the principal terms of the agreement is as follows:

- the term of the agreement is from 15 July, 2003 to 31 December, 2007 and is renewable by mutual consent;
- we have the right to use the licensed trademarks for the goods registered in classes 18 (bags, leather articles), 25 (clothes, shoes, caps, head ornaments) and 28 (games, gymnastic and sporting articles);
- the Licensor is entitled to supervise the quality of the goods in respect of which the licensed trademarks are used and we shall guarantee the quality of the goods in respect of which the trademarks are used;
- we have to pay royalties for use of the licensed trademarks; and
- the trademarks licensed to us under the agreement are:



Protection of our intellectual property rights

We recognise the importance of protecting and enforcing our intellectual property rights. We have a team of staff who make regular visits to shopping areas to identify any potential infringement of our brands. Appropriate actions will be taken to defend our brands if any infringement is found.

BUSINESS

COMPETITION

We compete in the PRC and overseas with an increasing number of local and international players. Our major competitors in the PRC market and international markets include international and local brands. Our Directors believe the intense competition and rapid changes in products trend and consumer preference constitute significant risk factors in our operations.

We believe performance and reliability of existing sporting goods, new product development, price, brand image through marketing and promotion, and consumer support and service are important competitive factors in the sporting goods industry. In addition, we also believe that our competitive advantages are our leading market position, high brand awareness, extensive sales coverage, comprehensive supply chain management and our dedicated management.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

Prior to the Listing, we have transactions with certain of our connected persons. Certain of these transactions are expected to continue on an on-going basis after the Listing. Details of the connected transactions are summarised as follows:

Discontinued connected transactions

1. *Concessionary arrangements with Dong Gan Jiu Liu and Dong Gan Jing Ji*

Background

Before the Listing, Beijing Li Ning Sporting Goods Sales Co., Ltd (“Beijing Li Ning Sales”), a subsidiary of the Company, entered into concessionary arrangements with Dong Gan Jiu Liu and/or Dong Gan Jing Ji in respect of operation of directly-managed concessions under the LI-NING brand. Each of Dong Gan Jiu Liu and Dong Gan Jing Ji has obtained rights to operate concessions at the relevant department stores or shopping malls.

As the master holder of the concessionary rights, Dong Gan Jiu Liu and/or Dong Gan Jing Ji pay to Beijing Li Ning Sales the sales proceeds of the LI-NING branded products made at the relevant concessions, which is calculated by deducting the relevant concession rate from retail price. Terms of these concessionary arrangements are comparable to other concessionary arrangements entered into by Beijing Li Ning Sales.

For each of the Track Record Periods, the payments from Dong Gan Jiu Liu and/or Dong Gan Jing Ji in respect of the operation of directly-managed concessions under the LI-NING brand to Beijing Li Ning Sales under the above concession any arrangements amounted to an aggregate of approximately RMB2.00 million, RMB2.15 million and RMB3.10 million, respectively.

Such concessionary arrangements with Dong Gan Jiu Liu and/or Dong Gan Jing Ji will be terminated before the Listing and will be replaced by concessionary arrangements with Independent Third Parties. It is expected that the payments from Dong Gan Jiu Liu and/or Dong Gan Jing Ji under such concessionary arrangements for the period between 1 January, 2004 and the date of termination before the Listing will in aggregate be not more than RMB2 million.

Exempt continuing connected transactions

2. *Lease agreement between Beijing Li Ning (as lessee) and Shanghai Li Ning and Shanghai Ning Sheng (as joint lessors)*

Background

Shanghai Ning Sheng is owned by Mr. Li Ning and his family members in the percentages as shown in Note 4 of the section headed “Business – Shareholding and Reorganisation” of this prospectus. Shanghai Ning Sheng is therefore an associate of Mr. Li Ning and, hence, a connected person of the Company for the purposes of the Listing Rules.

CONNECTED TRANSACTIONS

Lease Agreement

Shanghai Li Ning and Shanghai Ning Sheng are jointly entitled to use the land use rights of a piece of land at No. 9 Tong Hua Dong Yi Lu, Chan Cheng District, Foshan City, Guangdong province, the PRC (the “Property”), which right to use is jointly held/owned as to 80% by Shanghai Li Ning and as to 20% by Shanghai Ning Sheng. A 5-storey building is erected on the Property.

Beijing Li Ning, an indirect wholly-owned subsidiary of the Company, operates a product development centre in Foshan City, Guangdong province, the PRC. The development centre is located on the 3rd floor of the building on the Property. Beijing Li Ning as lessee has entered into a lease agreement dated 1 January, 2003 (the “Lease Agreement”) with Shanghai Li Ning and Shanghai Ning Sheng as joint lessors in respect of the premises for the two design centers for a term of two years commencing 1 January, 2003 until 31 December, 2004.

Listing Rules implication

Under the Lease Agreement, the aggregate annual rent payable by Beijing Li Ning to Shanghai Li Ning and Shanghai Ning Sheng is RMB406,800, of which 20% or RMB81,360 is to be paid to and received by Shanghai Ning Sheng. The annual rent is payable quarterly in advance. As the aggregate annual rent payable by Beijing Li Ning to Shanghai Ning Sheng is below HK\$1,000,000, and hence fall within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. Therefore, the Lease Agreement is not subject to any of the reporting, announcement and independent shareholders’ approval requirements applicable to continuing connected transactions under Chapter 14A to the Listing Rules.

3. *Sales agency agreements with Beijing Dong Xiang*

Background

Beijing Dong Xiang is an indirect non-wholly subsidiary of us. The registered capital of Beijing Dong Xiang is held as to 80% by Shanghai Yue Ao and the remaining 20% by Shanghai Lei De. Shanghai Lei De is a limited liability company established in the PRC, which is owned as to 49.1% by Mr. Chen Yi Hong, 41% by Mr. Chen Yi Liang (a brother of Mr. Chen Yi Hong) and 9.9% by Shanghai Ning Sheng. As Mr. Chen Yi Hong and his associates (being connected persons of the Company) are together indirectly entitled to exercise, or control the exercise of, more than 10% of the voting power at its general meetings, Beijing Dong Xiang is therefore our connected person for the purposes of the Listing Rules.

Beijing Dong Xiang has the exclusive license to use and distribute the KAPPA branded and related products in the PRC and Macau.

CONNECTED TRANSACTIONS

Sales agency agreements

Beijing Dong Xiang has five non-exclusive sales agency agreements (the “Sales Agency Agreements”) with each of the sales offices of Shanghai Edosports in Shanghai, Shenyang, Hangzhou, Wuhan and Changsha, respectively, for sale of the KAPPA branded products on behalf of Beijing Dong Xiang at no costs. These agreements are all of identical terms, the principal terms of which include:

- All sales agency relationship shall be non-exclusive and appointment shall be in respect of the region to be specified in the relevant sales agency agreement.
- Ownership of the relevant KAPPA branded products shall remain with Beijing Dong Xiang prior to the retail sales.
- The sales agent shall sell the KAPPA branded products according to the retail price provided by Beijing Dong Xiang, and consent of Beijing Dong Xiang is required for any change in the retail price.
- The sales agent shall account to Beijing Dong Xiang for the sales proceeds, but custody and storage expenses and staff costs incurred by the sales agents for sale of the KAPPA branded products shall all be reimbursed by Beijing Dong Xiang.

Listing Rules implication

As the sales agency services are provided by each of the sales offices of Shanghai Edosports in Shanghai, Shenyang, Hangzhou, Wuhan and Changsha at no costs, the transactions contemplated under the Sales Agency Agreements are exempted from reporting, announcement and independent shareholders’ approval requirements applicable to continuing connected transactions under Chapter 14A to the Listing Rules.

Non-exempt connected transactions

4. *Sports organising agreement (the “Sports Organising Agreement”) between Beijing Li Ning and Beijing Edo Sports*

Background

Beijing Edo Sports is a limited company established in the PRC, which is owned as to 80% by Shanghai Ning Sheng and as to 20% by Mr. Li Zhi Qiang (the General Manager of Beijing Edo Sports and a minority shareholder of the Company). By reason of the interests of Mr. Li Ning 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.

CONNECTED TRANSACTIONS

Beijing Edo Sports is principally engaged in, among other things, organising cultural and sports events exchange activities. It has other clients in addition to the Group. Beijing Li Ning, as sponsor, has engaged Beijing Edo Sports in organising the following sports events and promotional activities:

Since 2003

- Li Ning Cup Spring Jogging Event (李寧杯春季長跑)
- Chinese University Students Mini-Soccer Competition (中國大學生五人足球賽)

Since 2004

- National Street Dance TV Competition

Beijing Edo Sports is organising the Chinese University Students Mini-soccer Competition and National Street Dance TV Competition for Beijing Li Ning on an annual basis. The organising fees paid and to be paid by Beijing Li Ning to Beijing Edo Sports are calculated based on market rates of the work and level of promotional activities for organising the relevant sporting events.

During the year ended 31 December, 2003, the aggregate organising fees paid by Beijing Li Ning to Beijing Edo Sports was RMB2.35 million.

Sports Organising Agreement

Our Directors expect that we will continue to engage Beijing Edo Sports to organise sports events after Listing. To regulate the relationship between the parties, Beijing Li Ning has 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, subject to renewal upon its expiry by mutual agreement upon substantially the same terms. The principal terms of the Sports Organising Agreement are set forth below:

- The principal target of sports events sponsored by Beijing Li Ning are university students, with minor sports events and activities targeting young consumers in general.
- In respect of the sports events that Beijing Li Ning intends to sponsor, Beijing Li Ning may appoint Beijing Edo Sports to liaise with the relevant government authorities for approval of sponsorship.
- In respect of the event appointed by Beijing Li Ning or any other members of the Group, Beijing Edo Sports as the organiser shall prepare an estimate of the organising fees on a cost basis, which shall be based on the estimated organising fees prepared by the organising committees of different competition regions, for approval by Beijing Li Ning. Once approved, payment of the organising fees will be based on the approved amount.

CONNECTED TRANSACTIONS

- Beijing Edo Sports shall be entitled to separately charge an additional amount of 15% of the approved organising fees as its income out of which Beijing Edo Sports is to pay for its own operating expenses and costs.
- Beijing Li Ning is at liberty to select other organisers for events that it sponsors, provided that if the terms of appointment of other organisers are the same or similar as those of Beijing Edo Sports, priority will be given by Beijing Li Ning to use Beijing Edo Sports' services.

Annual transaction value

Our Directors expect that the aggregate annual organising fees (inclusive of Beijing Edo Sports' income) agreed to be payable to Beijing Edo Sports for the year ending 31 December, 2004 are RMB3.70 million (comprising RMB3.50 million for the Chinese University Students Mini-Soccer Competition and RMB200,000 for the National Street Dance TV Competition), subject to an annual increase of not more than 15%.

Listing Rules implication

In respect of the Sports Organising Agreement, our Directors expect that the consideration ratio, being the only applicable percentage ratio mentioned in Rule 14.07 of the Listing Rules, will on an annual basis be either (i) less than 2.5% or (ii) less than 25% with the annual organising fees payable to Beijing Edo Sports by Beijing Li Ning not exceeding HK\$10,000,000, as stipulated under Rule 14A.34 of the Listing Rules. Therefore, the Sports Organising Agreement is not subject to the shareholders' approval requirement but is subject to the reporting and announcement requirements applicable to continuing connected transactions under Rule 14.A34 of the Listing Rules.

We have applied for and the Stock Exchange has granted to us a waiver from strict compliance with the announcement (but not reporting) requirements set forth in Rule 14A.47 of the Listing Rules provided that the annual value of the transactions under the Sports Organising Agreement does not exceed RMB3.70 million, RMB4.26 million and RMB4.90 million for each of three years ending 31 December, 2006, respectively.

5. *Non-exclusive distributorship 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")*

Background

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.

Dong Gan Jiu Liu is principally engaged in the distribution of sporting goods and are distributors of a number of other sports brands in the PRC.

CONNECTED TRANSACTIONS

Dong Gan Jiu Liu has been appointed as a non-exclusive distributor of Beijing Dong Xiang for the distribution of the KAPPA branded products in the PRC since 2002. Dong Gan Jiu Liu, as a distributor, purchases the KAPPA branded products from Beijing Dong Xiang at a certain percentage (55% for readily available products and 52% for delivery at a future date) of the recommended retail price for the relevant product for re-sale to customers. It keeps the difference between the purchase price (paid to Beijing Dong Xiang) and selling prices (paid by its customers) as its income. The same percentage applies to the purchase of the same KAPPA branded products by the same class of non-exclusive distributors of Beijing Dong Xiang. Before being appointed as a KAPPA branded products distributor, Dong Gan Jiu Liu is already a distributor of two other well-known foreign brand-name products in Beijing. In appointing Dong Gan Jiu Liu as a distributor, we have taken into account the experience and connection of Dong Gan Jiu Liu in retail sales. Terms of engagement of Dong Gan Jiu Liu have been comparable to those of other non-exclusive distributors engaged by Beijing Dong Xiang.

The current non-exclusive distributorship agreement between Beijing Dong Xiang and Dong Gan Jiu Liu (as the non-exclusive distributor for KAPPA branded products) is for a term of one year commencing from 1 January, 2004 to 31 December, 2004, which may be renewed by mutual agreement. To regulate the relationship between the parties after the Listing, the parties have entered into a non-exclusive distributorship framework agreement on 1 January, 2004 for a term of three years commencing from 1 January, 2004. Based on the terms of the framework agreement, the parties will renew the existing agreement upon its expiry on 31 December, 2004.

The principal terms and conditions of the non-exclusive distributorship framework agreement between Beijing Dong Xiang and Dong Gan Jiu Liu (as the non-exclusive distributor for KAPPA branded products) are set forth below:

- No products other than the KAPPA branded products can be sold by the distributor at the specified locations.
- Beijing Dong Xiang is the exclusive supplier of KAPPA branded products to the distributor.
- The distributor shall endeavor to sell the KAPPA branded products according to the recommended retail price specified by Beijing Dong Xiang. Substantial deviation from the recommended retail price causing damage to Beijing Dong Xiang or the rights of other KAPPA brand distributors shall entitle Beijing Dong Xiang to terminate the agreement and for damages for breach.
- Beijing Dong Xiang has the right to terminate the agreement for breach upon the happening of the following events: (1) infringement of the legal rights of Beijing Dong Xiang and damage to the licensed operation of the KAPPA brand; (2) major debt problems making it impossible for the distributor to operate normally; (3) suspension or cancellation of the distributor's business licence by the relevant government authorities; (4) breach of management plans by the distributor.

CONNECTED TRANSACTIONS

For the two years ended 31 December, 2003, the sale of KAPPA branded products to Dong Gan Jiu Liu amounted to approximately RMB2.4 million and RMB7.6 million, respectively.

Annual transaction value

Our Directors estimate that sales of KAPPA branded products will substantially increase for the period between 2004 and 2006 because (1) we have accumulated substantial domestic market experience in the promotion and sales of foreign brand-name products; (2) the reputation of the KAPPA branded products in the domestic market has increased through our various promotional activities since the launch of the KAPPA branded products in August 2002; and (3) experience of our sales and marketing teams in the marketing and sales of foreign brand-name products. Our Directors have also noted positive response from the trade fair held in April 2004.

Based on the above, our Directors estimate that sales of KAPPA branded products will increase at a higher growth rate of approximately 80% in 2004 and 2005 and of approximately 54% in 2006, and our sales to Dong Gan Jiu Liu will also increase accordingly. With reference to the historical contribution by Dong Gan Jiu Liu to the sales of our KAPPA branded products, our Directors estimate that the transactions with Dong Gan Jiu Liu for the distributorship of KAPPA branded products in respect of the three years ending 31 December, 2006 would reach RMB14.00 million, RMB22.00 million and RMB35.00 million, respectively.

Listing Rules implication

In respect of such distributorship of KAPPA branded products, our Directors expect that the consideration ratio, being the only applicable percentage ratio mentioned in Rule 14.07 of the Listing Rules, will on an annual basis exceed 2.5% and the transactions with Dong Gan Jiu Liu for the distributorship of KAPPA branded products will be more than HK\$10,000,000, as stipulated under Rule 14A.34 of the Listing Rules. Therefore, the transactions with Dong Gan Jiu Liu for the distributorship of KAPPA branded products are subject to the reporting, announcement and independent shareholders' approval requirements applicable to non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

We have applied for and the Stock Exchange has granted to us a waiver from strict compliance with the announcement (but not reporting) and independent shareholder's approval requirements set forth in Rules 14A.47 and 14A.48 of Listing Rules provided that the annual value of the transactions under the non-exclusive distributorship agreement with Dong Gan Jiu Liu does not exceed RMB14.00 million, RMB22.00 million and RMB35.00 million for each of the three years ending 31 December, 2006, respectively.

CONNECTED TRANSACTIONS

6. *Non-exclusive distributorship 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”)*

Background

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 Directors. 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.

Dong Gan Jing Ji is principally engaged in the distribution of sporting goods and are distributors of a number of sports brands in the PRC.

Prior to 1 January, 2004, two other companies controlled by Mr. Chen Yi Liang and/or Mr. Chen Yi Yong, namely, 北京亞特蘭商貿有限公司 (Beijing Ya Te Lan Sporting Goods Co., Ltd.) (“Beijing Ya Te Lan”) and 北京都市兄弟經貿有限公司 (Beijing Metropolitan Brothers Trading Co., Ltd.) (“Beijing Metropolitan Brothers”) had been engaged in the non-exclusive distribution of LI-NING branded products at a retail shop at Men Tou Gou, 1 He Tan Lu Jia, Men Tou Gou District, Beijing, the PRC (the “Men Tou Gou Shop”). These companies, as distributors, purchased the LI-NING branded products from Beijing Li Ning for re-sale to customers. They keep the difference between the purchase price (paid to Beijing Li Ning) and selling prices (paid by its customers) as their income. Terms of engagement of these companies have been comparable to those of other non-exclusive distributors engaged by Beijing Li Ning. The distributorship relationship between Beijing Ya Te Lan and Beijing Metropolitan Brothers and us had ceased since 1 January, 2004.

The current non-exclusive distributorship agreement between Beijing Li Ning and Dong Gan Jing Ji (as the non-exclusive distributor for LI-NING branded products) for the retail of the LI-NING branded products at the Men Tou Gou Shop is for a term of six months commencing from 1 January, 2004 to 30 June, 2004, which may be renewed by mutual agreement. To regulate the relationship between the parties after the listing, the parties have entered into a non-distributorship agreement on 1 January, 2004 for a term of three years commencing from 1 January, 2004. Based on the terms of the framework agreement, the parties will renew the existing agreement upon its expiry on 30 June, 2004.

The principal terms and conditions of the non-exclusive distributorship framework agreement between Beijing Li Ning and Dong Gan Jing Ji (as the non-exclusive distributor for LI-NING branded products) are set forth below:

- The distributor is authorised to sell at the Men Tou Gou Shop only. No products other than LI-NING branded products can be sold by the distributor at the authorised location. Any change and renovation of the authorised location has to obtain the prior written consent of Beijing Li Ning;

CONNECTED TRANSACTIONS

- The distributor shall endeavor to sell the LI-NING brand products according to the recommended retail price specified by Beijing Li Ning and cannot adjust the retail price without the prior written consent of Beijing Li Ning. Any breach of this provision will entitle Beijing Li Ning to stop providing the LI-NING branded products to the distributor; and
- Beijing Li Ning has the right to terminate the Distribution Agreement for breach upon the happening of, among others, the following events: (1) breach of the agreement and damage arising therefrom to the licensed operation of Beijing Li Ning; (2) major debt problems of the distributor making it impossible for the distributor to operate normally; (3) suspension or cancellation of the distributor's business licence by the relevant government authorities; (4) breach of the management plans of Beijing Li Ning by the distributor.

For each of the Track Record Periods, the sale of LI-NING branded products to Dong Gan Jing Ji and its predecessors under the non-exclusive distributorship arrangement at the Men Tou Gou Shop amounted to approximately RMB0.79 million, RMB0.62 million and RMB1.60 million, respectively.

Annual transaction value

Our Directors expect the sales of LI-NING branded products will increase in the next three financial years ending 31 December, 2006 because of (1) the expected increase in consumer spending power in the PRC; and (2) the expected increase in incentives to spend on sportswear and sporting goods with the approach of the 2008 Beijing Olympic Games.

Based on the above, our Directors estimate that the transactions with Dong Gan Jing Ji for the non-exclusive distributorship of LI-NING branded products in respect of the three years ending 31 December, 2006 would reach RMB2.00 million, RMB2.30 million and RMB2.65 million, respectively.

Listing Rules implication

In respect of such distributorship of LI-NING branded products, our Directors expect that the consideration ratio, being the only applicable percentage ratio mentioned in Rule 14.07 of the Listing Rules, will on an annual basis be either (i) less than 2.5% or (ii) less than 25% with the transactions with Dong Gan Jing Ji for the distributorship of LI-NING branded products not exceeding HK\$10,000,000, as stipulated under Rule 14A.34 of the Listing Rules. Therefore, the transactions with Dong Gan Jing Ji for the distributorship of LI-NING branded products are not subject to the shareholders' approval requirement but is subject to the reporting and announcement requirements applicable to connected transactions under Chapter 14A of the Listing Rules.

We have applied for and the Stock Exchange has granted to us a waiver from strict compliance with the announcement (but not reporting) requirements set forth in Rule 14A.47 of the Listing Rules provided that the annual value of the transactions under non-exclusive distributorship agreement with Dong Gan Jing Ji in respect of the Men Tou Gou Shop does not exceed RMB2.00 million, RMB2.30 million and RMB2.65 million for each of the years ending 31 December, 2006, respectively.

CONNECTED TRANSACTIONS

WAIVER FROM THE STOCK EXCHANGE

Upon the listing of the Shares on the Main Board, each of the above transactions will constitute continuing connected transactions of the Company for the purposes of the Listing Rules. Our Directors, including our independent non-executive Directors, and the Sponsor are of the opinion that all transactions described in this section have been conducted, and will be carried out, in the ordinary and usual course of business of our Group and on normal commercial terms which are fair and reasonable so far as our Shareholders are concerned.

As the non-exempt connected transactions described above are entered into in the ordinary course of business on a continuing basis, our Directors consider that disclosure and approval of them in full compliance with the Listing Rules would be impracticable and, in particular, add unnecessary administrative costs to us. Our Directors, including our independent non-executive Directors, and the Sponsor are of the view that such transactions have been entered and will be entered into in the ordinary and usual course of business and on normal commercial terms for transactions of a similar nature and are fair and reasonable and in the interests of our Shareholders taken as a whole. In this regard, we have requested the Stock Exchange to grant, and the Stock Exchange has granted, a waiver for a period of three years expiring on 31 December, 2006 from strict compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules, subject to the aggregate value of each of the non-exempt connected transactions for each financial year does not exceed the relevant cap amount set forth below:

Non-exempt continuing connected transactions	Cap amount (RMB million)		
	For the year ending 31 December,		
	2004	2005	2006
• Sports Organising Agreement with Beijing Edo Sports	3.70	4.26	4.90
• Non-exclusive distributorship of KAPPA branded products by Dong Gan Jiu Liu	14.00	22.00	35.00
• Non-exclusive distributorship of LI-NING branded products by Dong Gan Jing Ji	2.00	2.30	2.65

The Company will comply with the requirements specified under Rule 14A.42(3) of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

FUTURE PLANS AND PROSPECTS

We estimate that the 2008 Beijing Olympic Games will significantly raise public interests for, and awareness of, sports and fitness among people in the PRC and thus stimulate demand for sporting goods. We believe that as a national sports brand for people in the PRC, the LI-NING brand will benefit from such demand. Our objective is to maintain our position as a leading sporting goods enterprise in the PRC by capturing this business opportunity. In order to achieve this objective, we will adopt the following growth strategies to:

- reinforce our sales channels and distribution infrastructure;
- upgrade our product design, development and research platform;
- strengthen our brand awareness and loyalty;
- enhance our supply chain management for faster response and better efficiency;
- develop our licenced international brands business; and
- explore opportunities to venture into other sports-related business with synergies to our existing business through collaboration or acquisition.

USE OF NET PROCEEDS FROM THE NEW ISSUE

We intend to utilise the net proceeds from the New Issue to finance our future development plans, strengthen our capital base and improve our financial position. The net proceeds from the New Issue (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.995 per Share, being the mid-point of the stated range of the Offer Price of between HK\$1.76 and HK\$2.23 per Share) to us are estimated to be approximately HK\$440 million (HK\$512 million if the Over-allotment Option is exercised in full). We currently intend to use such net proceeds as follows:

- approximately HK\$100 million for the expansion and improvement of the coverage of our distributorship and retail network;
- approximately HK\$110 million for brand promotional and marketing activities;
- approximately HK\$15 million for establishing our basic product research capabilities, developing new product series and setting up our design and development centre in Hong Kong;
- approximately HK\$35 million for improving our management information systems and logistics operations;
- approximately HK\$40 million for acquisition and operation of management rights or licences of other international brands in the PRC market;
- approximately HK\$60 million for establishing a centralised operating headquarters in Beijing;

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

- approximately HK\$40 million for strategic acquisitions that are complimentary to our business (if suitable opportunities arise); and
- the remaining balance of approximately HK\$40 million as our general working capital.

In the event that the Over-allotment Option is exercised in full, we intend to use the additional net proceeds of approximately HK\$72 million as additional general working capital. To the extent that the net proceeds from the New Issue are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may place such funds in short-term deposits with banks and/or financial institutions for so long as it is in our best interests. We have at present not identified any strategic acquisition targets.

We may also re-allocate the use of proceeds should any of the above future development plans not be implemented. In such events, the Company will comply with the appropriate requirements under the Listing Rules. The Company will issue an announcement if there is any change in the use of proceeds.

CONTROLLING SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND OTHER FOUNDING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer, without taking into account the Offer Shares that may be taken up under the Share Offer and the Shares that may be issued pursuant to the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the following persons are our Controlling Shareholders:

Name	Number of the Shares directly or indirectly held immediately following completion of the Share Offer	Approximate percentage of the Issued Shares immediately following completion of the Share Offer
Mr. Li Ning, Mr. Li Chun, Ms. Li Ying and her husband, Mr. Zhao Jian Guo	456,484,000 <i>(Notes 1 and 2)</i>	46.294%

Notes:

- The total 456,484,000 Shares are held by Mr. Li Ning, Mr. Li Chun (the brother of Mr. Li Ning), Ms. Li Ying (the sister of Mr. Li Ning) and her husband, Mr. Zhao Jian Guo as follows:

<i>Number of Shares held</i>	After completion of the Share Offer	<i>% of Shares held</i>	Registered owner
220,174,000 Shares		22.329%	Victory Mind Assets
150,000,000 Shares		15.212%	Champion Link
51,060,000 Shares		5.178%	Double Essence
35,250,000 Shares		3.575%	Alpha Talent

Victory Mind Assets is beneficially owned as to 62.11% by Mr. Li Ning and as to 37.89% by Mr. Li Chun.

The entire interest in Champion Link 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.

Double Essence is beneficially owned as to 50% by Ms. Li Ying and 50% by her husband, Mr. Zhao Jian Guo.

Alpha Talent is beneficially and solely owned by Mr. Li Ning.

- Prior to the Reorganisation, Ms. Chen Yong Yan, the wife of Mr. Li Ning, and Ms. Dang Liu Ning, the wife of Mr. Li Chun, assigned their respective beneficial interests in China Sports to Mr. Li Ning and Mr. Li Chun absolutely to the intent that their respective beneficial interests in China Sports should not be transferred and held under Champion Link. After completion of the respective assignments and upon the Listing, Ms. Chen Yong Yan and Ms. Dang Liu Ning are not members of the Controlling Shareholders.

CONTROLLING SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND OTHER FOUNDING SHAREHOLDERS

There are no substantial transactions between our Controlling Shareholders and us (see the section headed “Connected Transactions”), and we are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer, without taking into account the Offer Shares that may be taken up under the Share Offer and the Shares that may be issued pursuant to the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme, the following persons are our Substantial Shareholders:

Name	Number of the Shares directly or indirectly held immediately following completion of the Share Offer	Approximate percentage of the Issued Shares immediately following completion of the Share Offer
Mr. Li Ning, Mr. Li Chun, Ms. Li Ying and her husband, Mr. Zhao Jian Guo	456,484,000 <i>(Note)</i>	46.294%
Tetrad	149,737,500	15.185%

Note: Please see the notes under “Controlling Shareholders” in this section.

UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS AND OTHER FOUNDING SHAREHOLDERS

Each of our Controlling Shareholders has undertaken with the Company and the Sponsor (on behalf of the Underwriters) the following:

- (1) it/he/she shall not, and shall procure that the relevant registered holder(s) and that none of its/his/her associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him shall not, sell, transfer or otherwise dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security for a bona fide commercial loan) any of our Shares or securities of the Company owned by it/him or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by it/him which is, directly or indirectly, the beneficial owner of any of our Shares or securities of the Company) (the “Relevant Securities”) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders and the Other Founding Shareholders is made in the prospectus and ending on the date which is six months from the date on which dealings in our Shares on the Main Board first commence (the “First Six-Month Period”); and

CONTROLLING SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND OTHER FOUNDING SHAREHOLDERS

- (2) it/he/she shall not, and shall procure that the registered holder(s) and its/his/her associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him/her shall not, within the period of a further six months immediately after the expiry of the First Six-Month Period (the “Second Six-Month Period”) sell, transfer or otherwise dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security for a bona fide commercial loan) any of the Relevant Securities, if immediately following such sale, transfer or disposal, our Controlling Shareholders taken together would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, provided always that, in the event of any such sale, transfer or disposal, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for our Shares after completion of such sale, transfer or disposal.

Each of our Controlling Shareholders has undertaken with the Company and the Sponsor (on behalf of the Underwriters) that during the First Six-Month Period and the Second Six-Month Period, it/he shall:

- (1) when it/he pledges or charges any securities or interests in the securities of the Company beneficially owned by it/him, whether directly or indirectly, immediately inform the Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company shall be sold, transferred or disposed of, immediately inform the Company in writing of such indications.

The Company has undertaken with the Sponsor that it shall inform the Stock Exchange as soon as it has been informed of matters referred to in (1) and (2) above by the Controlling Shareholders or any of them and disclose such matters by way of a press announcement which is to be published in the newspapers as soon as possible.

Each of our Controlling Shareholders has also undertaken to the Stock Exchange to comply with Note 3 to Rule 10.07(2) of the Listing Rules.

Each of the Other Founding Shareholders has undertaken with the Company and the Sponsor (on behalf of the Underwriters) that he/she shall not sell, transfer, or otherwise dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security for a bona fide commercial loan) any of the Relevant Securities in the First Six-Month Period.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. LI Ning (李寧), aged 41, is the Group's chairman and founder of the LI-NING brand and an executive Director. He is primarily responsible for our overall corporate strategies, planning and business development.

Mr. Li is one of the most outstanding athletes in the 20th century. In the 6th World Cup Competition in 1982, Mr. Li won six gold medals for men's artistic gymnastics and was named “體操王子” (the “Prince of Gymnastics”) in China. In the 23rd Los Angeles Olympic Games in 1984, he won three gold medals, two silver medals and one bronze medal, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the only Asian member of Athlete's Commission of the International Olympic Committee. From 1993 to 2000, he has served as a member of the Men's Artistic Gymnastics Technical Committee of the Fédération Internationale De Gymnastique. In 1999, he was voted one of the “World's Most Excellent Athletes in the 20th Century” by the World Sports Correspondent Association.

After retiring in 1989, Mr. Li initiated the idea of the LI-NING brand with the goal of creating the first national sporting goods brand in the PRC. He has dedicated the past 14 years to expanding and promoting our business, as well as developing China's sporting goods industry. Mr. Li has a bachelor's degree in law from Peking University (北京大學) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Mr. ZHANG Zhi Yong (張志勇), aged 36, is the chief executive officer of the Company an executive Director and the general manager of Shanghai Li Ning. He joined us in December 1992. He was a finance manager of Beijing Li Ning, the financial controller of Beijing Li Ning since April 1999 and has been the general manager of Beijing Li Ning since March 2001. Mr. Zhang is primarily responsible for the overall development, sales and marketing of the LI-NING products. He has over 10 years of experience in financial and marketing management. Mr. Zhang has a bachelor's degree from Beijing College of Economics (北京經濟學院) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Mr. TAN Wee Seng (陳偉成), aged 49, is the chief financial officer, qualified accountant and one of the joint company secretaries of the Company and an executive Director. He joined us in January 2003. Mr. Tan is primarily responsible for our overall financial management, capital planning and allocation. He has over 27 years of experience in the fields of financial, operations and business management. Prior to joining us, he held various management positions in a number of multi-national corporations. From 1999 to 2002, Mr. Tan has been the senior vice president of China, Mongolia and North Korea regions of a leading global news and information group. Prior to that, he was the managing director of its Hong Kong subsidiary (a major domestic equity and financial information services company), as director of its Australia subsidiary and as the East Asia regional finance manager respectively. He is a member of the Chartered Institute of Management Accountants.

Mr. CHEN Yi Hong (陳義紅), aged 46, is an executive Director. He joined us in January 1991. Mr. Chen is primarily responsible for our international brand licencing business and the overall management of our sales and distribution functions. Prior to joining us, he was a manager of the shoes division of Guangdong Li Ning, the vice-general manager, general manager and chief executive officer of Beijing Li Ning and the vice-chairman of the National Volleyball Association (中國排球協會) in 2002. Mr. Chen has over 20 years of experience in the sporting goods industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Non-executive Directors

Mr. LIM Meng Ann (林明安), aged 40, is a non-executive Director. He joined us in July 2003. Mr. Lim is senior vice president of, and is responsible for the investment activities in Greater China for, GIC Special Investments Pte Ltd, the private equity arm of Government of Singapore Investment Corp Pte Ltd., which he joined in 1997. Prior to that, he was an investment officer of International Finance Corporation, the private sector investment arm of the World Bank group, from 1993 to 1997. Mr. Lim has a B.Eng degree (first class honours) from University College London in 1987 and a M.B.A. degree from University of Strathclyde in 1993. He is also a Chartered Financial Analyst.

Mr. Stuart SCHONBERGER, aged 45, is a non-executive Director. He joined us in January 2003. Mr. Schonberger is the managing director of CDH China Holdings Management Company Limited, a private equity fund management company, which focuses on investments in the PRC. Prior to joining CDH China Holdings Management Company Limited, he worked in the private equity group of China International Capital Corporation from 1998 to 2002. Prior to that, Mr. Schonberger also worked as a commercial banker in New York City. Mr. Schonberger received a M.B.A. degree from New York University's Graduate School of Business and a B.A. degree from Wesleyan University. He is currently a director of GEM Services Inc. and eBIS Company Limited.

Mr. FONG Ching, Eddy (方正), aged 57, is a non-executive Director. He joined us in June 2004. Mr. Fong is a certified public accountant and was formerly a senior partner of PricewaterhouseCoopers, an international accounting firm. Apart from pursuing a professional career, Mr. Fong is active in public and community services in Hong Kong. He was appointed as a Justice of Peace in 1996 and awarded Silver Bauhinia Star in 2000 by the Government of Hong Kong. At present, he is a non-executive director of the Mandatory Provident Fund Schemes Authority, a member of the Advisory Committee of the Securities and Futures Commission, a council member of the Open University of Hong Kong and a member of the General Committee of the Federation of Hong Kong Industries. He is also an independent non-executive director of China Resources Power Holdings Company Limited, a listed company on the Main Board. He graduated from the University of Kent in the United Kingdom and was also conferred as Honorary Doctor of Civil Law in 1997.

Independent non-executive Directors

Mr. KOO Fook Sun, Louis (顧福身), aged 47, is an independent non-executive Director. He joined us in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. He was the managing director and head of the corporate finance department of ABN AMRO Asia Corporate Finance Limited, a director and chief executive officer of Silvernet Group Limited (listed on the Main Board and currently known as Enerchina Holdings Limited) and an executive director of 401 Holdings Limited (listed on the Main Board). He is also an independent non-executive director of Weichai Power Co., Ltd. (listed on the Main Board). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Ms. WANG Ya Fei (王亞非), aged 48, is an independent non-executive Director. She joined us in January 2003. Ms. Wang has 12 years of experience in management and corporate finance matters. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. She has a bachelor's degree in international politics from Shanghai Fudan University (上海復旦大學) and was an exchange scholar in Maryland University, College Park, the United States. She also has a M.B.A. degree from the University of Lancaster, the United Kingdom.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. CHAN Chung Bun, Bunny (陳振彬), aged 46, is an independent non-executive Director. He joined us in June 2004. Mr. Chan has more than 25 years of experience in the garment industry and is currently the Chairman of Prospective Holdings Ltd. Mr. Chan is active in community affairs. He was appointed as a Justice of Peace in 2002 and is presently the Chairman of Kwun Tong District Council. He is also the former Chairman of Pok Oi Hospital.

SENIOR MANAGEMENT

LI-NING brand

Mr. WU Xian Yong (伍賢勇), aged 33, is the marketing director of Beijing Li Ning. He joined us in February 2004. Mr. Wu is primarily responsible for branding, marketing and product strategies of the LI-NING brand. Mr. Wu has 8 years of experience in marketing and brand management. Prior to joining us, he held various positions at various PRC subsidiaries of a multinational consumer goods company. He has a bachelor's degree from Xian Jiao Tong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).

Mr. ZHANG Xiao Yan (張小岩), aged 41, is the product director of Beijing Li Ning. He joined us in January 2004. Mr. Zhang is primarily responsible for product planning, design, research and development for the LI-NING brand. Mr. Zhang has 12 years of experience in products management. Prior to joining us, he held marketing positions at the PRC subsidiaries of various multinational consumer goods companies. He has a bachelor's degree and a master's degree from Beijing Diplomatic College (北京外交學院).

Mr. WANG Jiu Hua (王久華), aged 40, is the financial controller of Beijing Li Ning. He joined us in July 2003. Mr. Wang is primarily responsible for finance, accounting, administration and internal control of Beijing Li Ning. Mr. Wang has over 14 years of experience in financial management. Prior to joining us, he held various financial control, chief representative and senior management positions in various domestic and multinational companies. He has a master's degree from Steinbeis University Berlin and a bachelor's degree from Shanghai Fudan University (上海復旦大學).

Mr. GUO Jian Xin (郭建新), aged 34, is the director of manufacturing of Beijing Li Ning. He joined us in October 1997. Mr. Guo is primarily responsible for the procurement, manufacturing and development of the LI-NING products. Mr. Guo has 6 years of experience in logistics and procurement management. He studied mathematics in and graduated from South China Normal University (華南師範大學).

Ms. WANG Li (王鵬), aged 40, is the director of operations. She joined us in March 2000. Ms. Wang is primarily responsible for management information system, quality control and logistics management of the LI-NING brand. Ms. WANG has over 10 years of experience in sales and operations management. She completed an executive M.B.A programme from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2003 and has a bachelor's degree from the University of Science and Technology Beijing (北京科技大學).

Mr. XU Wei Jun (徐偉軍), aged 36, is assistant to the general manager of Beijing Li Ning. Mr. Xu is primarily responsible for analysing and devising strategic development plans of the LI-NING brand. He joined us in August 2001. Prior to joining us, he worked at the PRC subsidiaries of various multinational consumer goods companies. He has a bachelor's degree from Zhongshan University (中山大學).

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Licensed international brand

Mr. QIN Da Zhong (秦大中), aged 35, is the general manager of Beijing Dong Xiang. He joined us in 1997. Mr. Qin is primarily responsible for the overall development of the KAPPA brand business as well as the implementation of licensed international brand strategies. Mr. Qin has over 6 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning where he was responsible for corporate planning, international business and financial control. Prior to joining us, he worked for the National Audit Office of the PRC (中國國家審計署). He has a bachelor's degree in economics from Zhongshan University (中山大學) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Mr. WANG Zhi Guo (王志國), aged 36, is the marketing director of Beijing Dong Xiang. He joined us in 1998. Mr. Wang is primarily responsible for the sale and marketing of the KAPPA products. Mr. Wang has over 8 years of experience in the sporting goods industry. Prior to his current position, he worked for Beijing Li Ning and was responsible for sales and marketing. He has a bachelor's degree in industrial and business management from Beijing Economics College (北京經濟學院).

Ms. ZHONG Hua (鍾華), aged 34, is the director of manufacturing of Beijing Dong Xiang. She joined us in 2000. Mr. Zhong is primarily responsible for the procurement, manufacturing and operations management of the KAPPA products. Prior to her current position, she worked for Beijing Li Ning where she was responsible for international sales. Ms. Zhong has over 4 years of experience in the sporting goods industry. She has a bachelor's degree from Beijing University of Technology (北京工業大學).

Manufacturing and others

Mr. LIANG Yong Gen (梁永根), aged 39, is the deputy general manager of Guangdong Li Ning. He joined us in February 1992. Mr. Liang is primarily responsible for the management of our apparel manufacturing operations in Sanshui, the PRC. Mr. Liang has over 14 years of experience in accounting and 5 years of experience in operations management. He is a graduate of JiNan University (暨南大學).

Mr. XIE Tie Hua (謝鐵華), aged 43, is the director of operations of Foshan Gymnastics. He joined us in May 1992. Mr. Xie is primarily responsible for managing our gymnastics training school. Prior to joining us, Mr. Xie was from 1979 to 1985, a member of the Chinese National Gymnastics Team, and from 1989 to 1990, the coach of Japan's Osaka Gymnastics Club. Mr. Xie is a graduate of Jilin Gymnastics University (吉林體操大學).

Strategic planning and management

Mr. ZHANG Jian Hua (章建華), aged 32, is the investment and project manager of Shanghai Li Ning. He joined us in July 1998. Mr. Zhang is primarily responsible for our capital planning, project management and legal affairs. Mr. Zhang has over 10 years of experience in finance, audit, corporate finance and investment. He has a bachelor's degree from Shanghai University of Finance & Economics (上海財經大學) and is a member of the Chinese Institute of Certified Public Accountants.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. CHENG Jun Jie (程俊杰), aged 31, is the strategy development manager of Shanghai Li Ning. He joined us in March 2002. Mr. Cheng is primarily responsible for our strategy development and management, strategic investment and cooperation. He has 6 years of experience in strategic management. He has a bachelor's degree from Tianjin University (天津大學), a master's degree in management and a doctorate degree in economics from Shanghai Fudan University (復旦大學).

COMPANY SECRETARIES

Mr. TAN Wee Seng (陳偉成), is one of our joint company secretaries. Mr. Tan's particulars are set forth in the paragraph headed "Directors" above.

Mr. NG Wai Hung (吳偉雄), aged 40, is one of our joint company secretaries, together with Mr. Tan Wee Seng. Mr. Ng is a practising solicitor in Hong Kong and a partner in the law firm of Iu, Lai & Li. He has extensive experience in the area of securities law, corporate and commercial law and China trade. Mr. Ng is an independent non-executive director of six companies listed on the Stock Exchange. He has a bachelor's degree in laws from the University of Hong Kong and a master's degree in laws from University of London, the United Kingdom.

AUDIT COMMITTEE

Our audit committee consists of three members, all being non-executive Directors. The functions of our audit committee are to review and supervise our financial reporting process and internal control system. The current members of our audit committee are Mr. Koo Fook Sun, Louis (chairperson of our audit committee), Ms. Wang Ya Fei and Mr. Stuart Schonberger.

REMUNERATION COMMITTEE

Our remuneration committee consists of three members. The functions of our remuneration committee are to review human resource management policies, determine the compensation and benefit plans of senior executives, as well as setting performance goals for senior executives. The current members of our remuneration committee are Mr. Li Ning (chairperson of our remuneration committee), Mr. Lim Meng Ann and Mr. Stuart Schonberger.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our remuneration committee will regularly review and determine from time to time the remuneration and compensation of our Directors and our senior management.

Each of our executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the date on which dealings of our Shares on the Main Board first commence and which will continue thereafter until terminated by three months' notice in writing served by either party on the other, which notice shall not expire until after the initial fixed term of three years. Each of our executive Directors will receive a salary subject to an annual review. In addition, each of our executive Directors is also entitled to a discretionary bonus at the absolute discretion of remuneration committee of our Board. Particulars of the terms of the above service contracts are set forth in the paragraph headed "Particulars of Directors' service contracts" in Appendix VI to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

For each of the Track Record Periods, the aggregate of the remuneration paid and benefits in kind granted to our Directors was approximately RMB1.6 million, RMB1.9 million and RMB4.0 million, respectively. We expect that the aggregate remuneration to be paid and benefits in kind to be granted to our Directors for the year ending 31 December, 2004 will be approximately RMB8.2 million.

STAFF

As at the Latest Practicable Date, we had 3,704 full time employees. The following is a breakdown of the employees by function:

	Number of employees
Management	81
Sales and marketing	376
Retail	2,162
Procurement and manufacturing	590
Product design, research and development	90
Logistics and management information system	182
Finance, accounting and general administration	223
	<hr/>
Total	<u>3,704</u>

Relationship with staff

We have not experienced any significant problem with our employees or disruption to our operations due to labour disputes nor have we experienced any difficulty in the recruitment and retention of suitable employees. We believe that we have a good working relationship with our employees.

Benefit scheme

We comply in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where we operate. In particular, we are required by the relevant PRC government authorities to contribute retirement benefits for our employees in the PRC.

Share option schemes

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme whereby such selected classes of participants (as more particularly described in Appendix VI to this prospectus) have been or may be granted options to subscribe for Shares at the discretion of our Board or a committee thereof. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised under the paragraphs headed “Pre-IPO Share Option Scheme” and “Share Option Scheme”, respectively in Appendix VI to this prospectus.

SHARE CAPITAL

SHARE CAPITAL

The following table is prepared on the basis that the Share Offer becomes unconditional. This table does not take into account Shares which may be issued upon exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or under the general mandate to issue new Shares (particulars are set forth under “General mandate given to our Directors to issue new Shares” below) or Shares which may be repurchased by the Company (particulars are set forth under “General mandate given to our Directors to repurchase our Shares” below).

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>10,000,000,000</u> Shares	<u>1,000,000,000</u>
<i>Shares in issue or to be issued, paid-up or credited as fully paid:</i>	
750,000,000 Shares in issue	75,000,000
<u>236,062,000</u> Shares to be issued pursuant to the New Issue	<u>23,606,200</u>
<u>986,062,000</u> Shares	<u>98,606,200</u>

Ranking

The New Shares will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued and will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares.

General mandate given to our Directors to issue new Shares

A general unconditional mandate has been granted to our Directors to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal amount of Shares in issue and to be issued (as set out in the above table); and
- the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

This mandate does not apply to situations where our Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme.

SHARE CAPITAL

This mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under “Written resolutions of the sole Shareholder passed on 5 June, 2004” in Appendix VI to this prospectus.

General mandate given to our Directors to repurchase our Shares

A general unconditional mandate has been granted to our Directors to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of our Shares in issue and to be issued (as set forth in the above table on share capital).

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which our Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules are set forth under “Further information about the Company” in Appendix VI to this prospectus.

This mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under “Written resolutions of the sole Shareholder passed on 5 June, 2004” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 30 April, 2004, being the latest practicable date for this indebtedness statement prior to the printing of this prospectus, we had outstanding borrowings of RMB80,000,000, all being unsecured short-term bank borrowings.

Securities and guarantees

As at the close of business on 30 April, 2004, all of our outstanding borrowings were unsecured, save for intra-group cross guarantees.

Contingent liabilities

As at 30 April, 2004, we had no material contingent liabilities.

Commitments

As at 30 April, 2004, we had operating lease commitments of approximately RMB124,973,000.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 April, 2004.

Our Directors confirm that there have been no material changes in our indebtedness and contingent liabilities since 30 April, 2004.

FINANCIAL INFORMATION

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flows

Our retail, sales and other daily operations required us to retain a high level of cash balance. During the Track Record Period, we financed our working capital needs principally through net cash flow from operating activities and from short-term borrowings. As at 31 December, 2003, we had cash and cash equivalents of approximately RMB224,488,000, an increase of approximately RMB96,836,000 from 31 December, 2002. Cash generated from operations, when not needed for working capital requirements, is held principally in the form of short-term and demand deposits with banks.

Operating activities

Net cash inflow generated from our operating activities amounted to approximately RMB29,312,000, RMB43,057,000 and RMB87,464,000 for each of the three years ended 31 December, 2003, respectively, representing an increase of approximately 103.1% for the year ended 31 December, 2003 compared to the year ended 31 December, 2002, and an increase of approximately 46.9% for the year ended 31 December, 2002 compared to the year ended 31 December, 2001.

Investing activities

Net cash outflow used in investing activities amounted to approximately RMB10,115,000, RMB7,141,000 and RMB23,845,000 for each of the three years ended 31 December, 2003, respectively. Net cash flow used in investing activities increased by approximately 234.0% for the year ended 31 December, 2003 compared to the year ended 31 December, 2002, primarily due to capital expenditures incurred for the purchase of property, plant and equipment and intangible assets. Net cash flow from investing activities decreased by approximately 29.4% for the year ended 31 December, 2002 compared to the year ended 31 December, 2001, primarily due to proceeds received from the disposal of property, plant and equipment.

Financing activities

Net cash outflow used in financing activities amounted to approximately RMB17,387,000 and RMB20,114,000 for each of the two years ended 31 December, 2002, respectively, and net cash inflow generated from financing activities amounted to approximately RMB33,217,000 for the year ended 31 December, 2003. Net cash flow generated from financing activities increased by approximately 65% for the year ended 31 December, 2003 compared to the year ended 31 December, 2002, principally due to proceeds received from the issuance of shares of RealSports to Tetrad and CDH.

FINANCIAL INFORMATION

Net current assets

As at 30 April, 2004, being the latest practicable date for the purpose of this statement, we had net current assets of approximately RMB291,256,000 comprising:

	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Inventories	289,072	
Accounts receivable	171,721	
Other receivables and prepayments	63,211	
Cash and cash equivalents	190,144	
	<hr/>	
	714,148	
	<hr/>	
Current liabilities		
Trade payables	159,630	
Other payables and accruals	111,381	
Short term borrowings	80,000	
Taxation payable	6,109	
Dividends payable	65,772	
	<hr/>	
	422,892	
	<hr/>	
Net current assets		<u><u>291,256</u></u>

Financial resources and capital structure

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, we expect to fund our capital and operating requirements through internally generated cash flows, the net proceeds from the Share Offer and our cash on hand. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

Our Directors are of the opinion that, taking into consideration the financial resources available to us (including our internally generated funds and the estimated net proceeds from the New Issue), we have sufficient funding for our present capital and operating requirements.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Chapter 13 of the Listing Rules.

FINANCIAL INFORMATION

SELECTED COMBINED FINANCIAL DATA

The selected combined financial data set forth below are extracted from, and should be read in conjunction with, our combined financial information during the Track Record Period (“Financial Information”) set forth in the accountant’s report, the text of which is set forth in Appendix I to this prospectus. The Financial Information has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board.

The combined profit and loss accounts data set forth below present the results of operations of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the periods under review. The combined balance sheet data set forth below present the financial position of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the periods under review.

	Year ended 31 December,		
	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit and loss accounts data			
Turnover ⁽¹⁾	734,935	958,005	1,276,224
Cost of sales	<u>(447,736)</u>	<u>(528,148)</u>	<u>(670,305)</u>
Gross profit	287,199	429,857	605,919
Other revenue	7,263	7,126	8,146
Distribution expenses	(128,557)	(222,581)	(335,717)
Administrative expenses	(88,846)	(104,561)	(121,049)
Other operating expenses	<u>(11,858)</u>	<u>(6,494)</u>	<u>(38,190)</u>
Operating profit	65,201	103,347	119,109
Finance costs, net	<u>(6,111)</u>	<u>(7,392)</u>	<u>(4,546)</u>
Profit before taxation	59,090	95,955	114,563
Taxation	<u>(8,634)</u>	<u>(28,130)</u>	<u>(22,029)</u>
Profit after taxation	50,456	67,825	92,534
Minority interests	<u>(836)</u>	<u>(936)</u>	<u>1,426</u>
Profit for the year	<u><u>49,620</u></u>	<u><u>66,889</u></u>	<u><u>93,960</u></u>
Dividends	<u><u>17,182</u></u>	<u><u>23,970</u></u>	<u><u>65,772</u></u>
Basic earnings per Share (<i>RMB cents</i>) ⁽²⁾	<u><u>6.62</u></u>	<u><u>8.92</u></u>	<u><u>12.53</u></u>

(1) Our turnover represents the invoiced value for the sale of goods net of value added tax, rebates and discounts.

(2) The calculation of basic earnings per Share is based on our profit for the year during the Track Record Period and on the 750,000,000 Shares issued pursuant to the Reorganisation as detailed in Appendix VI to this prospectus, as if these Shares have been in issue on 1 January, 2001.

FINANCIAL INFORMATION

	As at 31 December,		
	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Selected balance sheet data			
Inventories	179,954	228,825	296,239
Accounts receivables	57,951	83,031	120,059
Trade payables	65,504	127,926	171,581
Short-term borrowings	144,114	131,000	85,000
Owners' equity	148,689	215,578	389,032

BREAKDOWNS AND RATIOS

Breakdown of turnover

By product category, brand and type of sales

	For the year ended 31 December,					
	2001		2002		2003	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
Footwear	288,341	39.2	349,608	36.5	443,811	34.8
Apparel	385,425	52.5	500,131	52.2	658,649	51.6
Accessories	61,169	8.3	108,266	11.3	173,764	13.6
Total	<u>734,935</u>	<u>100.0</u>	<u>958,005</u>	<u>100.0</u>	<u>1,276,224</u>	<u>100.0</u>

	For the year ended 31 December,					
	2001		2002		2003	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
LI-NING brand	734,935	100.0	944,269	98.6	1,236,166	96.9
KAPPA brand	-	-	13,736	1.4	40,058	3.1
Total	<u>734,935</u>	<u>100.0</u>	<u>958,005</u>	<u>100.0</u>	<u>1,276,224</u>	<u>100.0</u>

	For the year ended 31 December,					
	2001		2002		2003	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
PRC market						
Distributor sales	567,388	77.2	750,715	78.4	995,067	78.0
Concession sales	99,697	13.5	115,564	12.1	132,699	10.3
Retail store sales	63,639	8.7	72,133	7.5	111,720	8.8
International markets	4,211	0.6	19,593	2.0	36,738	2.9
Total	<u>734,935</u>	<u>100.0</u>	<u>958,005</u>	<u>100.0</u>	<u>1,276,224</u>	<u>100.0</u>

FINANCIAL INFORMATION

By geographical region

	For the year ended 31 December,						
	2001		2002		2003		
	<i>Notes</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
LI-NING brand							
PRC market							
– Beijing and Shanghai		80,534	11.0	96,123	10.1	99,982	7.8
– Central region	<i>1</i>	98,011	13.3	120,502	12.6	164,743	12.9
– Eastern region	<i>2</i>	137,380	18.7	184,969	19.3	261,956	20.6
– Southern region	<i>3</i>	84,309	11.5	112,897	11.8	152,031	11.9
– Southwestern region	<i>4</i>	60,458	8.2	90,613	9.5	122,588	9.6
– Northern region	<i>5</i>	141,134	19.2	161,438	16.8	193,625	15.2
– Northeastern region	<i>6</i>	96,914	13.2	120,788	12.6	168,827	13.2
– Northwestern region	<i>7</i>	31,984	4.3	37,346	3.9	35,676	2.8
International markets		4,211	0.6	19,593	2.0	36,738	2.9
KAPPA brand							
PRC market		–	–	13,736	1.4	40,058	3.1
		<u>734,935</u>	<u>100.0</u>	<u>958,005</u>	<u>100.0</u>	<u>1,276,224</u>	<u>100.0</u>

Notes:

1. Central region includes Hubei, Hunan and Jiangxi.
2. Eastern region includes Zhejiang, Jiangsu and Anhui.
3. Southern region includes Guangdong, Guangxi, Fujian and Hainan.
4. Southwestern region includes Sichuan, Chongqing, Guizhou, Yunnan and Tibet.
5. Northern region includes Shandong, Hebei, Henan, Tianjin, Shanxi and Inner Mongolia.
6. Northeastern region includes Liaoning, Jilin and Heilongjiang.
7. Northwestern region includes Shaanxi, Xinjiang, Gansu, Qinghai and Ningxia.

FINANCIAL INFORMATION

Profit and loss items expressed as percentage of turnover

	Year ended 31 December,		
	2001	2002	2003
	<i>% of turnover</i>	<i>% of turnover</i>	<i>% of turnover</i>
Turnover	100.00	100.00	100.00
Cost of sales	(60.92)	(55.13)	(52.52)
Gross profit	39.1	44.9	47.5
Other revenues	1.0	0.7	0.6
Distribution expenses	(17.5)	(23.2)	(26.3)
Administrative expenses	(12.1)	(10.9)	(9.5)
Other operating expenses	(1.6)	(0.7)	(3.0)
Operating profit	8.9	10.8	9.3
Net finance costs	(0.8)	(0.8)	(0.4)
Profit before taxation	8.0	10.0	9.0
Taxation	(1.2)	(2.9)	(1.7)
Profit after taxation	6.9	7.1	7.3
Minority interests	(0.1)	(0.1)	0.1
Profit for the year	<u>6.8</u>	<u>7.0</u>	<u>7.4</u>

Selected financial ratios

	Year ended 31 December,		
	2001	2002	2003
Gross profit margin (%)			
Overall	39.1	44.9	47.5
Footwear	36.4	39.5	45.5
Apparel	40.4	47.6	47.7
Accessories	43.2	49.3	51.8
Average inventory turnover (days) (<i>Note 1</i>)	141	141	143
Average accounts receivable turnover (days) (<i>Note 2</i>)	25	27	29
Average trade payable turnover (days) (<i>Note 3</i>)	48	62	75
Effective tax rate (%)	14.6	29.3	19.2

Notes:

1. The calculation of average inventory turnover (days) is based the average of opening and closing inventory balance divided by cost of sales and multiplied by 365 days.
2. The calculation of accounts receivable turnover (days) is based on the average of opening and closing balance for accounts receivables divided by turnover and multiplied by 365 days.
3. The calculation of trade payable turnover (days) is based on the average of opening and closing balance for trade payables divided by total purchases and multiplied by 365 days.

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF OUR OPERATIONS

The following discussion of the results of our operations should be read in conjunction with our combined financial information during the Track Record Periods set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

Overview

We are one of the leading sports brand enterprises in the PRC. We have our own branding, research, design, manufacturing, distribution and retail capabilities. Our products include sports footwear, apparel and accessories for sport and leisure use primarily sold under the LI-NING brand, which is owned by us, and the KAPPA brand, which is exclusively licenced to us for use in the PRC.

We have established an extensive distributorship and retail network in the PRC market. We sell to our distributors who operate franchised LI-NING and KAPPA retail stores and concessions. As at 31 May, 2004, we had over 200 distributors operating over 2,200 franchised retail outlets for the LI-NING and KAPPA brands in the PRC. As at the same date, we also operated 110 retail stores and 199 concessions for the LI-NING and KAPPA brands in the PRC.

Internationally, we focus our sales of LI-NING branded products on Italy, Spain and Russia through our independent distributors. We also sold to independent distributors which export to countries and territories including Bahrain, Belize, Bulgaria, Colombia, Costa Rica, Ecuador, El Salvador, Greece, Guatemala, Honduras, Kuwait, Nicaragua, Oman, Panama, Portugal, Qatar, Saudi Arabia, South Korea, United Arab Emirates and Venezuela.

Our turnover grew from approximately RMB734.9 million for the year ended 31 December, 2001 to approximately RMB1,276.2 million for the year ended 31 December, 2003, while our net profit improved from approximately RMB49.6 million for the year ended 31 December, 2001 to approximately RMB94.0 million for the year ended 31 December, 2003.

Factors affecting the results of our operations

Our turnover and our ability to continue to generate profits are substantially affected by a number of factors, including the following principal factors:

- the level of consumer disposable income in the PRC;
- the level of demand for sporting goods;
- our ability to manage and control operating costs;
- changes in the operating conditions in the PRC consumer and retail market; and
- our effectiveness in competing with international and local brands on the basis of product quality, design, brand image, service, selection and price.

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Turnover and expenses

We derive our turnover from sales of sports footwear, apparel and accessories. Our turnover represents the invoiced value for the sale of goods net of value-added tax, rebates and discounts. We experience seasonal fluctuations in sales volume during the year. We respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories. We aim to influence consumer preferences through advertising and marketing.

Our expenses consist principally of cost of sales expenses, distribution expenses, administrative expenses and other operating expenses. Our cost of sales mainly comprises purchases, direct labour, manufacturing overheads, research and development expenses. Our distribution expenses mainly include advertising and promotional expenses and promotional expenses, salaries and benefits for sales staff, retail store rental and renovation expenses, transportation costs, advertising production expenses, market consultation expenses, sponsorship, travelling expenses for sales staff, depreciation charges relating to fixed assets for sales purposes and other marketing-related expenses. Our administrative expenses mainly include staff costs, office rental expenses, depreciation charges relating to office premises, and other general expenses. The trends relevant to administrative expenses include the size of our operations and the increases in the number of personnel to support the continued expansion of our operations. Our other operating expenses mainly include provision for bad debts and provision for obsolete and slow moving inventories, impairment charges, loss on disposal of property, plant and machinery and other operating expenses.

Other revenue

Our other revenue mainly comprises government grants from business support programme adopted by local PRC government. The government grants are received on ad-hoc basis from time to time and were awarded to us by local PRC government departments such as Beijing Municipality Chongwen District Finance Bureau and Shanghai Municipality Pudong New District Trading Bureau.

Taxation

Our profits are subject to PRC enterprise income tax. Provision for PRC enterprise income tax is calculated based on statutory tax rate of 33% of the assessable income of each member of our Group, except that certain of our subsidiaries are located in special economic zones in the PRC and are taxed at preferential tax rates of 15% based on the relevant PRC tax laws and regulations. The fluctuations of our effective tax rates during the Track Record Period were combined effects of different tax rates or our subsidiaries, expenses not deductible for tax purposes, income exempt for tax purposes for certain subsidiaries which were exempted for enterprise income tax in their first year of operation, as well as income tax refunds.

Growth strategies

We are pursuing growth strategies that have had, and should continue to have, significant impact on our results of operations and financial condition. In particular, we expect that the 2008 Beijing Olympic Games will significantly raise the public interest for, and awareness of, sports and fitness in the PRC, and stimulate demand for sporting goods. We expect to continue to increase the number of retail points as well as the upgrading of our product design, development and research platform to maintain our leading market position.

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We also intend to utilise the full potential of our network in the sporting goods industry in the PRC to maximise our revenues and profitability. We believe that by managing and introducing foreign brands (such as the KAPPA brand) with special characters, styles and product niches into the PRC market, we can effectively leverage on our position in the industry to develop a diversified and robust range of income streams. We intend to expand our licenced international brand business and venture into other sports-related business.

Critical accounting policies

Accounting estimates are an integral part of the financial statements prepared by our management and are based upon management's then-current judgments. A summary of the principal accounting policies used in preparation of our financial statement is set forth in note 2, "Principal accounting policies" of our audited consolidated financial statements which are included in the accountants' report set forth in Appendix I to this prospectus. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require our management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from our management's current judgements. Our management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of our financial statements.

Turnover recognition

We recognise turnover when title passes and risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the agreement with the customer. Retail store turnover is recognised at the time of sale.

Provisions for obsolete and slow-moving inventories

Our management exercises judgement in making provisions for inventories. During the Track Record Period, our policy on provisions for obsolete and slow-moving inventories were as follows:

	Two years ended		Year ended			
	31 December, 2002		31 December, 2003			
	Footwear	Apparel	Footwear	Apparel	Accessories	Others (Note)
Aged within 1 year	–	–	–	–	–	0.5%
Aged between 1 and 2 years	–	30%	–	30%	30%	0.5%
Aged between 2 and 3 years	10%	50%	10%	50%	50%	0.5%
Aged between 3 to 4 years	30%	100%	30%	100%	100%	0.5%
Aged between 4 to 5 years	50%	100%	50%	100%	100%	0.5%
Aged above 5 years	50%	100%	100%	100%	100%	0.5%

Note: Others include display cupboards and promotional products.

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We did not make any general provision for the “Other” inventories for the two years ended 31 December, 2002 as most of the “Other” inventories were aged less than 1 year. For the “Other” inventories aged over 1 year for the two years ended 31 December, 2002, full specific provision was made. For the year ended 31 December, 2003, an inventory provision policy of 0.5% general provision was made for the “Other” inventories. In addition, further specific provisions may also be made based on the expected utilisation, saleability and realisation. No provision has been made on “Other” inventories as there were no “Other” inventories for the year ended 31 December, 2003.

In addition, recommendations on further specific provisions will be made based on assessment of the expected utilisation, saleability and realisation of different types of raw materials.

Our business is also subject to seasonal trend. However, as our inventory provision is assessed based on the aging analysis of the inventory balance as at each year-end date, seasonal factors are levelled off. Accordingly, on a year-to-year basis, our Directors believe that seasonal factors did not have any material impact on the inventory level and related stock provisions during the Track Record Period.

Provisions for obsolete and slow-moving inventories were approximately RMB11.9 million for the year ended 31 December, 2003, compared to approximately RMB2.7 million and a write-back of provision of approximately RMB0.9 million in respect of each of the two years ended 31 December, 2002.

We made inventory provision of approximately RMB2.7 million for the year ended 31 December, 2001. As at 31 December, 2002, we assessed the necessary stock provision balance based on the age of each type of inventory and concluded that the required inventory provision balance amounted to RMB42.6 million, which was less than RMB43.5 million, the inventory provision as at 31 December, 2001. The excess provision of approximately RMB0.9 million was written-back in the profit and loss account for the year ended 31 December, 2002.

In 2003, we underwent a series of stock clearance exercise with a view to decrease the overall inventory level. As a result, we wrote off inventory of approximately RMB39 million against the inventory provision balance upon disposals of the aged inventory of which most of the inventories disposed of were aged 3 years or above. As at 31 December, 2003, we re-assessed the stock provision level by reference to the stock age. As most of the inventory with age over 3 years have been disposed of, while inventory with age of more than 1 year increased and our policy is to start providing for inventory with age over 1 year, additional provision of RMB11.9 million was made. The relatively low inventory provision balance in 2003 was mainly due to the improved aging of the inventory as majority of the provision was for inventory with age of 1 to 2 years. In accordance with our policy which has been consistently applied during the three years’ ended 31 December, 2003, the provision rate for apparels with age of 1 to 2 years is only 30%; while a full provision will be made for inventory with age of over 3 years. As a result, the ratio of inventory provision over the gross stock balance was less in 2003 as compared to that in 2001 and 2002.

Provision for bad and doubtful debts

Provision is made against account receivables to the extent amounts are considered to be doubtful. Our management must make estimates of the uncollectability of our account receivables from third parties.

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For the two years ended 31 December, 2002, our policy on provision on bad and doubtful debts was to make general provision of 0.5% of gross balance in account receivables, and to make special provision for account receivables with specific collectivity problems. For the year ended 31 December, 2003, we adopted a more stringent policy on provision on bad and doubtful debt to make 100% specific provision on balances aged over six months, on top of specific doubtful accounts. Accordingly, provision on bad and doubtful debts was approximately RMB14.9 million for the year ended 31 December, 2003, compared to RMB75,000 and approximately RMB1.9 million in respect of each of the two years ended 31 December, 2002.

Year ended 31 December, 2002 compared to year ended 31 December, 2001

Turnover

In 2002, our turnover was approximately RMB958.0 million, an increase of approximately 30.4% from approximately RMB734.9 million in 2001. Such increase was primarily due to expansion of our sales channels and range of products, as well as our increased advertising and promotional efforts.

Sales of accessories recorded strongest growth of 77.0% due to our offering of a wider range of products for both the LI-NING and KAPPA brands, while sales of footwear and apparel achieved a growth of approximately 21.2% and 29.8% respectively. As a result, in 2002, sales of footwear, apparel and accessories accounted for approximately 36.5%, 52.2% and 11.3% of our total turnover.

Sales of LI-NING brand grew by 28.5%. Sales of KAPPA brand commenced in July 2002 after the signing of the KAPPA Licence Agreements earlier in the year and recorded a turnover of approximately RMB13.7 million.

Gross profit

In 2002, our gross profit was approximately RMB429.9 million, an increase of approximately 49.7% from approximately RMB287.2 million. Our overall gross profit margin was approximately 44.9%, as compared to approximately 39.1% in 2001. Our gross profit margins for footwear, apparel and accessories amounted to approximately 39.5%, 47.6% and 49.3%, respectively, as compared to approximately 36.4%, 40.4% and 43.2%, respectively, in 2001. The increase in our overall gross profit margin was mainly due to:

- the continual enhancement of our brand awareness among the consumers through our marketing and promotional activities;
- the reduction in cost of sales as a result of bulk purchase and stricter implementation of target cost control measures for our sub-contractors, especially for apparel;
- the launch of different types of accessories with higher gross profit margin; and
- the increase in sales proportion of accessories which have higher gross profit margin among our products.

Distribution expenses

In 2002, our distribution expenses were approximately RMB222.6 million, an increase of approximately 73.1% from approximately RMB128.6 million in 2001. Such increase was mainly due to increase in advertising and production expenses, sponsorship, salaries and benefits expenses as a result of rising number of sales staff and salary levels, retail store rental and renovation

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expenses as a result of expansion of sales network, transportation and marketing-related costs. Distribution expenses as a proportion of turnover increased to 23.2% in 2002 from 17.5% in 2001.

Major items of our distribution expenses in 2002 compared to 2001 are set forth below:

	2001	2002	Increase	Increase
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
Distribution expenses				
Marketing and promotional expenses	67,669	108,624	40,955	61
Staff cost, office and travelling expenses	36,694	62,954	26,260	72
Rental expenses and depreciation	9,412	21,165	11,753	125
Logistics expenses	12,497	25,291	12,794	102
Others	2,285	4,547	2,262	99
Sub-total	<u>128,557</u>	<u>222,581</u>	94,024	73

The increase in marketing and promotional expenses was mainly due to our increased marketing efforts in enhancing the LI-NING brand and introducing the KAPPA brand in 2002, in light of the growing competition in the PRC. The increase in staff costs, office and travelling expenses was in line with the increase in the number of sales-related staff, the increase in average salary and the expansion of our sales network. Our number of sales-related staff increased to around 1,700 at the end of 2002 from around 1,300 at the end of 2001. The increase in rental expenses and depreciation expenses and logistics expenses was in line with the expansion of our sales network in the PRC.

Administrative expenses

In 2002, our administrative expenses were approximately RMB104.6 million, an increase of approximately 17.7% from approximately RMB88.8 million in 2001. Such increase was mainly due to an increase in salaries and benefits expenses for general administrative staff as a result of rising staff number. Administrative expenses as a proportion of turnover decreased to 10.9% in 2002 from 12.1% in 2001.

Other operating expenses

In 2002, our other operating expenses were approximately RMB6.5 million, a decrease of approximately 45.2% from approximately RMB11.9 million in 2001. There was a write-back of inventory provision of approximately RMB0.9 million in 2002, compared to a inventory provision of RMB2.7 million in 2001. Sundry costs and others decreased to approximately RMB5.5 million in 2002, compared to RMB9.1 million in 2001. Other operating expenses as a proportion of turnover decreased to 0.7% in 2002 from 1.6% in 2001.

Finance costs

In 2002, our finance costs were approximately RMB7.4 million, an increase of approximately 21.0% from approximately RMB6.1 million in 2001. Such increase was mainly due to the increase in our outstanding bank borrowings during the period.

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Taxation

In 2002, our taxation was approximately RMB28.1 million, an increase of approximately 225.8% from approximately RMB8.6 million in 2001. Our effective tax rate was approximately 29.3% in 2002 compared to 14.6% in 2001. The increase was mainly the combined effect of different tax rates of our subsidiaries, expenses not deductible for tax purposes, income exempt for tax purposes as well as income tax refund. In 2001, Shanghai Hu Bu was exempted from income tax and received a tax refund of approximately RMB11 million in accordance with 浦東新區政策 (Pudong New District Plan), for being in its initial year of establishment in 浦東新區 (Pudong New District).

Net profit

In 2002, our net profit was approximately RMB66.9 million, an increase of approximately 34.8% from approximately RMB49.6 million in 2001. Our net profit margin was approximately 7.0% in 2002, as compared to approximately 6.8% in 2001.

Year ended 31 December, 2003 compared to year ended 31 December, 2002

Turnover

In 2003, our turnover was approximately RMB1,276.2 million, an increase of approximately 33.2% from approximately RMB958.0 million in 2002. Such increase was primarily due to expansion of our sales channels and range of products, as well as our increased advertising and promotional efforts. Throughout the entire year, our turnover recorded steady and good growth, except in the second quarter of the year during which our business was negatively affected due to the outbreak of SARS.

Sales of accessories recorded strongest growth of 60.5% due to our offering of a wider range of products for both the LI-NING and KAPPA brands, while sales of footwear and apparel achieved a growth of approximately 26.9% and 31.7% respectively. In particular, we increased our research in footwear for a wide range of sports such as soccer, basketball, tennis and weights to meet the demand of the competitive footwear market. As a result, in 2003, sales of footwear, apparel and accessories accounted for approximately 34.8%, 51.6% and 13.6% of our total turnover.

Sales of LI-NING brand grew by 30.9%. Sales of KAPPA brand grew tremendously by 191.6% due to its first full year of sales in 2003 compared to only five months of sales in 2002 since our signing of the KAPPA Licence Agreements.

Gross profit

In 2003, our gross profit was approximately RMB605.9 million, an increase of approximately 40.9% from approximately RMB429.9 million. Our overall gross profit margin was approximately 47.5%, as compared to approximately 44.9% in 2002. Our gross profit margins for footwear, apparel and accessories amounted to approximately 45.5%, 47.7% and 51.8%, respectively, as compared to approximately 39.5%, 47.6% and 49.3%, respectively, in 2002. The increase in our overall gross profit margin was mainly due to:

- the continual enhancement of our brand awareness among the consumers through our marketing and promotional activities;

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- the reduction in cost of sales as a result of bulk purchase and stricter implementation of target cost control measures for our sub-contractors, especially for footwear, by working more closely with the purchase departments of our sub-contractors for more cost-effective raw materials available in the market; and
- the increase in sales proportion of accessories which have higher gross profit margin among our products.

Distribution expenses

In 2003, our distribution expenses were approximately RMB335.7 million, an increase of approximately 50.8% from approximately RMB222.6 million in 2002. Such increase was mainly due to increase in salaries and benefits expenses as a result of rising number of sales staff and salary levels, retail store rental and renovation expenses as a result of expansion of sales network, advertising production, transportation and marketing-related costs. Distribution expenses as a proportion of turnover increased to 26.3% in 2003 from 23.2% in 2002.

Major items of our distribution expenses in 2003 compared to 2002 are set forth below:

	2002	2003	Increase	Increase
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
Distribution expenses				
Marketing and promotional expenses	108,624	160,396	51,772	48
Staff cost, office and travelling expenses	62,954	96,529	33,575	53
Rental expenses and depreciation	21,165	39,469	18,304	86
Logistics expenses	25,291	39,223	13,932	55
Others	4,547	100	(4,447)	-98
	<hr/>	<hr/>		
Sub-total	<u>222,581</u>	<u>335,717</u>	113,136	51

The increase in marketing and promotional expenses was mainly due to our increased marketing efforts in enhancing the LI-NING and KAPPA brands in 2003, in light of the growing competition in the PRC. The increase in staff costs, office and travelling expenses was in line with the increase in the number of sales-related staff, the increase in average salary and the expansion of our sales network. Our number of sales-related staff increased to around 2,200 at the end of 2003 from around 1,700 at the end of 2002. The increase in rental expenses and depreciation expenses and logistics expenses was in line with the expansion of our sales network in the PRC.

Administrative expenses

In 2003, our administrative expenses were approximately RMB121.1 million, an increase of approximately 15.8% from approximately RMB104.6 million in 2002. Such increase was mainly due to the increase in salaries and benefits for general administrative staff in accordance with the rising staff number. In addition, during the period, we engaged services of external business consultants and professional firms with an aim to strengthen our internal audit control, financial planning and risk management, resulting in the increase in professional consultancy fees. Administrative expenses as a proportion of turnover decreased to 9.5% in 2003 from 10.9% in 2002.

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Other operating expenses

In 2003, our other operating expenses were approximately RMB38.2 million, an increase of approximately 488.1% from approximately RMB6.5 million in 2002. In 2003, in order to avoid significant increases in accounts receivable as a result of our growth in turnover, and hence the level of bad debts, we adopted a more conservative provision policy for our accounts receivables for risk control and financial reporting purposes. As a result, bad debt provision increased by approximately RMB13.0 million. We also made inventory provision of approximately RMB11.9 million. Other operating expenses as a proportion of turnover increased to 3.0% in 2003 from 0.7% in 2002.

Operating profit

In 2003, our operating profit was approximately RMB119.1 million, an increase of approximately 15.3% from approximately RMB103.3 million in 2002. Our operating profit margin was approximately 9.3% in 2003, as compared to approximately 10.8% in 2002.

Finance costs

In 2003, our finance costs were approximately RMB4.5 million, a decrease of approximately 38.5% from approximately RMB7.4 million in 2002. The decrease was mainly due to the decrease in our outstanding bank borrowings and decrease in general interest rates.

Taxation

In 2003, our taxation was approximately RMB22.0 million, a decrease of approximately 21.7% from approximately RMB28.1 million in 2002. Our effective tax rate was approximately 19.2% in 2003 compared to 29.3% in 2002. The decrease was mainly attributable to effect of preferential tax rates of certain subsidiaries.

Net profit

In 2003, our net profit was approximately RMB94.0 million, an increase of approximately 40.5% from approximately RMB66.9 million in 2002. Our net profit margin was approximately 7.4% in 2003, as compared to approximately 7.0% in 2002.

Inventories

A significant proportion of our working capital is devoted to inventories. We follow an inventory policy that seeks to ensure our franchised and directly-managed retail outlets have sufficient levels of finished goods to entice consumers, without leaving us with significant unsold items at the end of a season. We generally plan the merchandising and production schedule of our products in accordance with the backlog of advanced orders from our distributors and expected demand from our own retail outlets. We maintain finished goods inventory in our warehouses and deliver the goods to our distributors and our own retail outlets based on actual demand. We believe that appropriate level of inventories is necessary in the sporting goods industry to support our product sales through our extensive sales network. Average inventory turnover for the Track Record Period remained stable at 143 days in 2003, 141 days in 2002 and 141 days in 2001.

Although our inventory is relatively high as compared to the industry average, in order to avoid any stock-out situation, it is our strategy to keep sufficient inventories for our new retail points as the number of our retail points continues to increase. Furthermore, the inventory turnover for the new retail points is usually relatively low as it takes time to establish its clientele.

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Account receivables

For receivables from distributors, we generally provides credit periods of between 30 to 180 days. For receivables from department stores/shopping malls in respect of sales made in our concessions, we generally receive our sales proceeds within an average of 60 days from the end of the month during which the sales are made. For each of the Track Record Periods, our average accounts receivable turnover remained stable at approximately 25 days, 27 days and 29 days, respectively.

Trade payables

We negotiate with our suppliers and sub-contractors to obtain open account credit to the extent possible while maintaining a good business relationship with them. For each of the Track Record Periods, our average trade payable turnover was approximately 48 days, 62 days and 75 days, respectively, which are in line with the normal credit terms granted by our suppliers in the PRC (between 30 to 60 days). The increase in average trade payable turnover over the Track Record Period demonstrates our ability to secure more favourable terms from our suppliers and sub-contractors.

PROPERTY INTERESTS

Property valuation

Sallmanns (Far East) Limited, an independent property valuer, has valued our property interests as at 31 May, 2004 and is of the opinion that the value of our property interests is an aggregate amount of RMB55,628,000 as at 31 May, 2004. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix IV to this prospectus.

Properties owned by us

As at 31 May, 2004, we owned the following properties:

Property	Uses
Unit 228 on level 2 of Xidan Saite Shopping Center No. 111 Xidan North Avenue Xicheng District Beijing The PRC	Investment purpose
Rooms 601 to 606 on level 6 and Rooms 804 to 806 on level 8 of Zhaohuige No. 1 Huayuan Road East Foshan City Guangdong Province The PRC	Staff quarters

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Property	Uses
Rooms 202 to 207 on levels 2 to 7 of Block 1 Lane 1 Guibao Liu Street Xinan County, Sanshui District, Foshan City Guangdong Province The PRC	Staff quarters
Room 404 on level 4 of Block 1 Lane 2 Guibao Si Street Xinan County, Sanshui District, Foshan City Guangdong Province The PRC	Staff quarters
Rooms B and C on level 22 of Tower A of Huasheng Square No. 146 Weidi Avenue Hexi District Tianjin The PRC	Office purposes
Land and 2 buildings No. 9 Tonghua Dong Yi Road Chancheng District, Foshan City Guangdong Province The PRC	Gymnastic school and office purposes
Land and various buildings and structures located at Nanfeng Road Xinan County, Sanshui District, Foshan City Guangdong Province The PRC	Production and ancillary office purposes

Properties leased by us

As at 31 May, 2004, we leased a total number of 161 properties in various regions of the PRC. Out of our leased properties, 110 are used for our retail stores, 21 are used for warehouses and 30 are used for office purposes. Since we have leased interests in 161 properties and all such properties have no commercial value from a valuation point of view, the inclusion of the full particulars required to be disclosed by Rule 5.06(1) of the Listing Rules will be burdensome and make the prospectus unduly lengthy. Sallmanns (Far East) Limited, an independent property valuer, has estimated that if a full valuation report of all the leased properties of the Group is prepared in accordance with Rule 5.06(1) of the Listing Rules, this prospectus would require an addition of some 114 pages. We have applied for a waiver from the Stock Exchange from strict compliance with Rule 5.06(1) of the Listing Rules and the Stock Exchange has granted the waiver subject to (i) our making available for inspection the full valuation report complying with the requirements of Rule 5.06(1) of the Listing Rules; (ii) the disclosure of a summary of the particular leased properties (e.g. description and tenure, occupancy and capital value of that properties) in the property valuation report included in this prospectus; and (iii) the confirmation in compliance with paragraph 3(b) of Practice Note 16 of the Listing Rules.

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Defects in legal titles in respect of the leased properties

As at 31 May, 2004, there were defects in the legal titles of 12 leased properties out of our total of 161 leased properties in the PRC, all of which have not yet obtained proper property title documents to the relevant properties. Of the 12 leased properties with defects in titles, 11 leased properties with a total gross floor area of approximately 1,200.52 sq.m. are used as retail stores while the remaining one leased property with a gross floor area of approximately 305.54 sq.m. is used as an office. As at 31 May, 2004, the non-cancellable operating lease commitments amounted to approximately RMB3.4 million.

Our PRC legal advisers are unable to ascertain whether the parties designated as landlords in these lease contracts are the parties with the lawful right to execute the lease contracts in question, whether such parties have the right to let or sub-let the properties in question, or whether they can assume duties and responsibilities as landlords under such lease contracts. For these reasons, our PRC legal advisers cannot ascertain whether such lease contracts are valid and enforceable or whether we are protected by PRC law when utilising such properties. In the absence of proper legal titles, the relevant lease contracts may not be valid or enforceable.

We have never been evicted from or closed down the retail stores of any of these properties on the basis of defects in title. In the event that there is a dispute to the legal title of any of the affected leased properties, the retail store operating on such premises may have to be evicted or closed down and we may suffer losses due to prepayments and deposits paid for such affected leased properties.

Despite such defects in legal titles in respect of such leased properties, our Directors are of the view that such risk, a normal business risk, is not uncommon for companies engaged in retail business in the PRC and our operations and financial operation will not be materially and adversely affected if we continue to use and occupy these leased properties for the following reasons:

- during each of the three years ended 31 December, 2003, turnover contributed by the aforesaid retail stores occupying these leased properties with defects in legal titles represented less than 1% of our total turnover in the respective years;
- our Directors consider that the risk that all affected properties might be closed down or that we might be evicted from all such properties on the basis of defects in title is relatively remote, as these affected properties are leased by us from various parties; and
- as at 31 May, 2004, the net book value of the prepayments and rental deposits attributable to those affected leased properties amounted to approximately RMB0.2 million.

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PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER, 2004

Our Directors forecast that, in the absence of unforeseen circumstances, and based on the bases and assumptions set forth in Appendix III to this prospectus, our consolidated profit after taxation and minority interests but before extraordinary items for the year ending 31 December, 2004 will amount to not less than RMB122.5 million (equivalent to approximately HK\$115.6 million). Our Directors are not aware of any extraordinary items which will arise during the financial year ending 31 December, 2004.

On the basis of the above profit forecast and on the assumption that the Company had been listed since 1 January, 2004 and a total of 986,062,000 Shares were issued on 1 January, 2004, the forecast earnings per Share on a pro forma fully diluted basis will be RMB12.42 cents (equivalent to approximately HK11.72 cents), representing a pro forma fully diluted price/earnings multiple of approximately 15.0 times and 19.0 times if the Offer Price is HK\$1.76 and HK\$2.23 per Share, respectively.

On the basis of the above profit forecast and the weighted average number of approximately 870,611,000 Shares expected to be in issue during the year ending 31 December, 2003, the forecast earnings per Share on a weighted average basis will be RMB14.07 cents (equivalent to approximately HK\$13.27 cents), representing a weighted average price/earnings multiple of approximately 13.3 times and 16.8 times if the Offer Price is HK\$1.76 and HK\$2.23 per Share, respectively.

DIVIDEND POLICY AND PAST DIVIDENDS

Following the listing of our Shares on the Main Board, our Shareholders will be entitled to receive dividends declared by the Company. The Company intends to pay dividends by way of interim and final dividends. Our Directors do not intend to recommend any additional interim dividend in respect of the six months ended 30 June, 2004 but intend to recommend a final dividend for the whole year ending 31 December, 2004 at their discretion. Our Directors generally intend to declare and recommend dividends which would amount in total to not less than 30% of our distributable profit for the period subsequent to the Share Offer. The payment and amount of any dividends will be at the discretion of our Directors and will depend upon our earnings, financial conditions, cash requirements and availability, and other factors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or the timing of such payment.

We declared and paid dividends of approximately RMB17.2 million, RMB24.0 million and RMB65.8 million, respectively, in respect of each of the Track Record Periods. In addition, on 10 May, 2004, we declared and paid a special dividend of approximately RMB40.0 million before the Share Offer. Save as disclosed herein, no other dividend was declared by any member of our Group since the commencement of the Track Record Period. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the financial resources available to us including our internally generated funds and the estimated net proceeds from the New Issue, we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

The Company was incorporated on 26 February, 2004. Accordingly, we had no reserves available for distribution to the shareholders as at 31 December, 2003, being the date to which our latest audited financial statements were made up.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group is based on the audited combined net assets of our Group as at 31 December, 2003, as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus and adjusted as follows:

	Audited combined net asset of our Group as at 31 December, 2003 (RMB'000)	Less: Intangible assets (RMB'000)	Estimated net proceeds from the Share Offer (RMB'000)	Unaudited pro forma adjusted net tangible assets (RMB'000)	Unaudited pro forma adjusted net tangible assets per Share
Based on an Offer Price of HK\$1.76 per Share	389,032	(3,775)	409,033	794,290	RMB0.81 (or HK\$0.76)
Based on an Offer Price of HK\$2.23 per Share	389,032	(3,775)	523,704	908,961	RMB0.92 (or HK\$0.87)

Note: The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in this section and on the basis of 986,062,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described under "Resolutions of the sole Shareholder passed on 5 June, 2004" in Appendix VI to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading positions or prospects since 31 December, 2003, the date on which our latest audited consolidated financial statements were made up.

UNDERWRITING

INTERNATIONAL UNDERWRITERS

Lead Manager

DBS Asia

Co-Lead Managers

China International Capital Corporation (Hong Kong) Limited
Daiwa Securities SMBC Hong Kong Limited

Co-Managers

Barits Securities (Hong Kong) Limited
CITIC Capital Markets Limited
G. K. Goh Securities (H. K.) Limited
Guotai Junan Securities (Hong Kong) Limited
Phillip Securities (HK) Ltd.
VC Capital Limited

HONG KONG UNDERWRITERS

Lead Manager

DBS Asia

Co-Lead Manager

Daiwa Securities SMBC Hong Kong Limited

Co-Managers

Barits Securities (Hong Kong) Limited
CCB International Capital Limited
CITIC Capital Markets Limited
G. K. Goh Securities (H. K.) Limited
Guotai Junan Securities (Hong Kong) Limited
Phillip Securities (HK) Ltd.
Tai Fook Securities Company Limited
VC Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, we, together with the Vendors, are offering the Offer Shares at the Offer Price for subscription and purchase subject to the terms and conditions set forth in this prospectus and the Application Forms.

UNDERWRITING

In addition, we have granted the Over-allotment Option to DBS Asia (in its capacity as lead manager) and exercisable by DBS Asia from time to time prior to the date falling 30 days after the last day for lodging applications under the Hong Kong Public Offer, to require us to allot and issue up to 36,976,000 additional Shares, representing approximately 15% of the Shares initially available under the Share Offer, on the same terms as those applicable to the International Placing to cover over-allocations in the International Placing and/or the obligations of DBS Asia to return the securities borrowed under the Stock Borrowing Agreement.

Subject to, inter alia, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on or before 15 July, 2004, or such later date as we and the Sponsor may agree, (i) the International Underwriters have severally (and not jointly), agreed, subject to the terms and conditions of the Underwriting Agreement, to procure places to subscribe or purchase, or failing which themselves to subscribe or purchase the International Placing Shares; and (ii) the Hong Kong Underwriters have severally (and not jointly) agreed, subject to the terms and conditions of the Underwriting Agreement, to subscribe for or procure subscribers for, on the terms and conditions of this prospectus and the Application Forms, their respective applicable proportions of the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offer.

Grounds for termination

The respective obligations of the Underwriters to subscribe or purchase or procure subscribers or purchasers for the Offer Shares are subject to termination. DBS Asia (on behalf of the Underwriters) shall be entitled by written notice to us to terminate the Underwriting Agreement upon the occurrence of any of the following events at any time prior to 6:00 p.m. (Hong Kong time) on Sunday, 27 June, 2004 (the "Termination Time"), being the day immediately preceding the date on which dealings in the Shares on the Main Board first commence:

- there comes to the notice of DBS Asia or any of the Underwriters any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading when given or repeated or there has been a breach of any of the warranties or any other provisions of the Underwriting Agreement which, in any such cases, is considered, in the absolute opinion of DBS Asia (on behalf of the Underwriters), to be material in the context of the Share Offer;
- there comes to the notice of DBS Asia or any of the Underwriters any event, series of events, matters or circumstances occurs or arises on or after the date of the Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue, incorrect or misleading, and which is considered, in the absolute opinion of DBS Asia (on behalf of the Underwriters), to be material in the context of the Share Offer;

UNDERWRITING

- there comes to the notice of DBS Asia or any of the Underwriters any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the absolute opinion of DBS Asia (on behalf of the Underwriters), a material omission in the context of the Share Offer;
- there comes to the notice of DBS Asia or any of the Underwriters any event, act or omission which gives or is likely to give rise to any liability of ours or any of the executive Directors or any of the Covenantors arising out of the breach of any representations, warranties or undertakings contained in the Underwriting Agreement;
- there comes to the notice of DBS Asia or any of the Underwriters any breach by any party to the Underwriting Agreement other than DBS Asia or the Underwriters of any provision of the Underwriting Agreement which, in the absolute opinion of DBS Asia (on behalf of the Underwriters), is material;
- there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
 - (i) any new law or regulation in Hong Kong, the Cayman Islands, the BVI, or the PRC; or
 - (ii) any change in, or any event or series of events or development resulting in any change in the local, national, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects in Hong Kong, the Cayman Islands, the BVI, or the PRC; or
 - (iii) any material adverse change in the conditions of Hong Kong, the U.S., the United Kingdom, Singapore, the PRC or international equity securities or other financial markets; or
 - (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances; or
 - (v) any change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI, or the PRC; or
 - (vi) the imposition of economic sanction or withdrawal of trading privileges, in whatever form by ASEAN countries, the U.S. or by the European Union (or any member thereof) on Hong Kong, or the PRC; or
 - (vii) a general moratorium on commercial banking activities in the PRC, or Hong Kong declared by the relevant authorities; or

UNDERWRITING

- (viii) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which materially and adversely affect the business or the financial or trading position or prospects of the Group taken as a whole,

which, in the absolute opinion of DBS Asia (on behalf of the Underwriters):

- (a) is or shall be or is likely to be adverse, in any material respect, to our business, financial or trading condition or prospects of the Group taken as a whole; or
- (b) has or shall have or is likely to have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being applied for or accepted; or
- (c) makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Share Offer as a whole.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or devaluation of Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions.

Commissions and expenses

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commissions, and the Sponsor will also receive a financial advisory fee. Such fees, together with the underwriting commission, listing fees, legal and other professional fees, printing, and other fees and expenses relating to the Share Offer, are estimated to be approximately HK\$31.5 million in aggregate (assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.995 per Share, being the mid-point of the stated range of the Offer Price of between HK\$1.76 and HK\$2.23 per Share). Out of such total commissions and expenses, we and the Vendors shall severally bear and pay all the costs and expenses incurred in connection with the Share Offer (other than the legal fees, the Stock Exchange listing fees and printing expenses which are payable by us) in proportion to the number of Shares offered by them under the Share Offer. The Vendors will pay for the underwriting commission, trading fee, transaction levy and investor compensation levy relating to the Sale Shares which are estimated to be approximately HK\$0.5 million in aggregate (assuming the above Offer Price), while we will pay for the underwriting commission, trading fee, transaction levy and investor compensation levy relating to the New Issue and all other listing expenses which are estimated to be approximately HK\$31.0 million in aggregate (assuming that the Over-allotment Option is not exercised and assuming the above Offer Price). We will also pay for all expenses in connection with any exercise of the Over-allotment Option or over-allocations in the International Placing.

Undertakings

Each of our Controlling Shareholders and the Other Founding Shareholders has given certain undertakings to the Company and the Sponsor (on behalf of the Underwriters). Particulars of these undertakings are set forth in the section headed “Controlling Shareholders, Substantial Shareholders and Other Founding Shareholders” in this prospectus.

UNDERWRITING

In addition, we undertake to the Underwriters that we will not, and each of the Covenantors undertakes to the Underwriters to procure that neither we nor any of our subsidiaries will, except pursuant to the Share Offer, the exercise of the Over-allotment Option and the exercise of any option granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, (a) allot or issue or agree to allot or issue any shares or other securities; or (b) grant or agree to grant any options or other rights carrying any right to subscribe for or otherwise acquire any of securities, directly or indirectly, conditionally or unconditionally, or repurchase any securities, of ours or any of our subsidiaries (including warrants or convertible securities), at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date six months from the date on which dealings in the Shares first commence on the Main Board (the “First Six-Month Period”) without first having obtained the prior written consent of DBS Asia (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules.

Each of us and the Covenantors further undertakes to the Underwriters that, save with the prior written consent of DBS Asia (on behalf of the Underwriters), no member of the Group shall within the First Six-Month Period purchase any of our securities.

SPONSOR’S AND UNDERWRITERS’ INTERESTS IN THE COMPANY

The Sponsor will receive a financial advisory fee. The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set forth under “Commissions and expenses” above.

Save as disclosed above, none of the Sponsor and the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Share Offer.

Our Directors and the Sponsor will ensure there will be a minimum 25% of the total issued share capital of the Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE STRUCTURE OF THE SHARE OFFER

The Share Offer consists of:

- the International Placing; and
- the Hong Kong Public Offer.

An aggregate of 24,652,000 New Shares have been allocated to the Hong Kong Public Offer, subject to reallocation from the International Placing if there is over-subscription in the Hong Kong Public Offer as stipulated under the Listing Rules. An aggregate of 221,864,000 Offer Shares will initially be offered under the International Placing subject to the reallocation mentioned below.

Investors are free to select whether to apply for Shares under the Hong Kong Public Offer or the International Placing, but may only receive Shares under the Hong Kong Public Offer OR the International Placing but not both. Our Directors and the Sponsor will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offer and the International Placing which are not allowed and are bound to be rejected.

In order to facilitate settlement of the over-allocations under the International Placing, if any, Victory Mind Assets has agreed with DBS Asia (acting in the capacity as the global coordinator, bookrunner and lead manager of the Share Offer) that, if so requested by DBS Asia, it may, subject to the terms of the Stock Borrowing Agreement, make available to DBS Asia up to 36,976,000 Shares held by it to facilitate settlement of over-allocations in the International Placing. **As a result of an application by DBS Asia on behalf of the Company and Victory Mind Assets, the Stock Exchange has granted a waiver to the Company and Victory Mind Assets from strict compliance with Rule 10.07(1) of the Listing Rules which restricts, among other things, the disposal of Shares by the controlling shareholder following a new listing, in order to allow Victory Mind Assets to enter into and perform its obligations under the Stock Borrowing Agreement on the conditions that:**

- such stock borrowing arrangement with Victory Mind Assets will only be effected by DBS Asia for settlement of over-allocations in the International Placing;
- the maximum number of Shares borrowed from Victory Mind Assets under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Victory Mind Assets or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as may be agreed in writing between DBS Asia and Victory Mind Assets;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements; and
- no payment will be made to Victory Mind Assets by DBS Asia in relation to such stock borrowing arrangement.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme); and
- the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereof) and not being terminated in accordance with the terms of the agreement,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 15 July, 2004 (or such other date as we and DBS Asia may agree).

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application money will be returned **WITHOUT INTEREST**. The terms on which the application money will be returned are set forth under “Refund of your application money” on the Application Forms. In the meantime, all application money received from the Hong Kong Public Offer will be held in a separate bank account or separate bank accounts with the receiving bank or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE INTERNATIONAL PLACING

We are offering initially 211,410,000 New Shares and the Vendors are offering 10,454,000 Sale Shares, both at the Offer Price, representing in aggregate 90% of the total number of the Offer Shares initially available under the Share Offer, for subscription and purchase by way of the International Placing, subject to the reallocation if there is over-subscription in the Hong Kong Public Offer, and the exercise of the Over-allotment Option.

Investors subscribing for or purchasing the International Placing Shares are also required to pay brokerage of 1%, Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% imposed by the SFC.

It is expected that the International Underwriters or selling agents nominated by them on our behalf will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional, corporate and other investors.

All decisions concerning the allocation of the International Placing Shares to prospective placees pursuant to the International Placing will be made on the basis of and by reference to a number of factors including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

relevant investor is likely to buy further Shares, and/or hold or sell its Offer Shares, following the commencement of dealings in the Shares on the Main Board. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid institutional, professional and individual shareholder base to our benefit and our Shareholders as a whole. In addition, the Directors and the Sponsor will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the International Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

In connection with the International Placing, we have granted the Over-allotment Option to DBS Asia, exercisable by DBS Asia (acting in the capacity as the global coordinator, bookrunner and lead manager of the Share Offer) at any time and from time to time prior to the date falling 30 days after the last day for lodging applications under the Hong Kong Public Offer, subject to the terms of the Underwriting Agreement. Pursuant to the Over-allotment Option, we may be required to allot and issue, at the Offer Price, up to an additional 36,976,000 new Shares, representing approximately 15% of the number of the Offer Shares initially being offered under the Share Offer, to cover over-allocations in the International Placing. **If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the Company's enlarged issued share capital following completion of the Share Offer. In the event that the Over-allotment Option is exercised, we will issue a separate announcement.**

If the International Placing Shares are not fully taken up, DBS Asia (acting in the capacity as the global coordinator, bookrunner and lead manager of the Share Offer) will have the absolute discretion to reallocate all or any unsubscribed International Placing Shares to the Hong Kong Public Offer in such number as it considers appropriate.

The total number of International Placing Shares to be allotted and issued may change as a result of the reallocation arrangement stated under "Reallocation from the International Placing to the Hong Kong Public Offer" below, the exercise of the Over-allotment Option and any reallocation of the unsubscribed Hong Kong Offer Shares to the International Placing as mentioned under "The Hong Kong Public Offer" below.

THE HONG KONG PUBLIC OFFER

We are initially offering Hong Kong Offer Shares under the Hong Kong Public Offer, at the Offer Price, representing in aggregate 10% of the total number of the Offer Shares initially available under the Share Offer assuming the Over-allotment Option is not exercised, for subscription by way of a Hong Kong Public Offer in Hong Kong, subject to the reallocation arrangement stated under "Reallocation from the International Placing to the Hong Kong Public Offer" below. The Hong Kong Public Offer, being part of the Share Offer, is lead managed by DBS Asia and is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required to pay on application the Offer Price plus brokerage of 1%, Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% imposed by the SFC.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. Persons allotted Shares under the Hong Kong Public Offer cannot apply for Shares under the International Placing. The Hong Kong Public Offer will be subject to the conditions stated under "Conditions of the Share Offer" above.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of the Hong Kong Offer Shares to applicants under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would result in some applicants being allotted more Hong Kong Offer Shares than others who have applied for the same number of Hong Kong Offer Shares, and applicants who are not successful in the ballot not receiving any Hong Kong Offer Shares.

If the Hong Kong Offer Shares are not fully subscribed, DBS Asia (acting in the capacity as the global coordinator, bookrunner and the lead manager of the Share Offer) will have the absolute discretion to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing in such number as it considers appropriate.

The total number of Hong Kong Offer Shares to be allotted and issued may change as a result of the reallocation arrangement stated under “Reallocation from the International Placing to the Hong Kong Public Offer” and any reallocation of unsubscribed Hong Kong Offer Shares to the International Placing.

Basis of allocation of the Hong Kong Offer Shares

There will initially be a total of 24,652,000 New Shares available for subscription under the Hong Kong Public Offer under the **WHITE** and **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC. For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 12,326,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5,000,000 (excluding the SFC transaction levy, the Stock Exchange trading fee, the investor compensation levy imposed by the SFC and brokerage payable thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 12,326,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5,000,000 (excluding the SFC transaction levy, the Stock Exchange trading fee, the investor compensation levy imposed by the SFC and brokerage) and up to the total initial value of pool B.

Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Reallocation from the International Placing to the Hong Kong Public Offer

If the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available under the Hong Kong Public Offer, then the number of Shares available under the Hong Kong Public Offer will increase to 73,954,000 Shares, representing approximately 30% of the total number of Offer Shares initially available under the Share Offer (assuming the Over-allotment Option is not exercised).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Placing will be increased so that the total number of Shares available under the Hong Kong Public Offer will increase to 98,606,000 Shares, representing approximately 40% of total number of Offer Shares initially available under the Share Offer (assuming the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the International Placing will be increased so that the total number of Shares available under the Hong Kong Public Offer will increase to 123,258,000 Shares, representing 50% of the total number of Offer Shares initially available under the Share Offer (assuming the Over-allotment Option is not exercised).

In each such case, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

STABILISATION IN HONG KONG

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may purchase the newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial offering prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the initial offering price.

In connection with the Share Offer, DBS Asia may over-allocate or effect any other transactions to enable it to satisfy any over-allocation in the International Placing with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. This stabilising activity may include the exercise of the Over-allotment Option or by market purchase of the Shares in the secondary market or selling the Shares to liquidate a position held as a result of the purchase. Any such market purchase will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on DBS Asia to conduct any such stabilising activity which, if commenced, will be done at the absolute discretion of DBS Asia and may be discontinued at any time. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be issued under the Over-allotment Option, namely 36,976,000 Shares, which is approximately 15% of the number of the Shares initially available under the Share Offer.

As a result of effecting transactions to stabilise or maintain the market price of the Shares, DBS Asia may maintain a long position in the Shares. The size of the long position and the period for which DBS Asia will maintain the long position is at the discretion of DBS Asia. In the event that DBS Asia liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Stabilising action by DBS Asia is not permitted to support the price of the Shares for longer than the stabilising period, which begins from the day on which dealings in the Shares on the Main Board commences and ends on the 30th day after the date of closing of the application lists of the Hong Kong Public Offer. As a result, demand for the Shares, and its market price, may fall after the end of the stabilising period.

Any stabilising action taken by DBS Asia may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Market purchase of the Shares by DBS Asia may be made at prices at or below the Offer Price.

DEALING IN THE SHARES ON THE MAIN BOARD

Assuming that the Share Offer becomes unconditional, it is expected that dealings in the Shares on the Main Board will commence at 9:30 a.m. (Hong Kong time) on Monday, 28 June, 2004.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

There are two ways to make an application for our Hong Kong Offer Shares. You may either use an Application Form or you may electronically instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC.

WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant maintained in CCASS.

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Hong Kong Offer Shares are not available to the Directors or chief executive of the Company or its subsidiaries or existing beneficial owners of Shares or associates of any of them.

WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS FOR THE HONG KONG OFFER SHARES

You can collect a **WHITE** Application Form and a prospectus from:

Any participant of the Stock Exchange

or

DBS Asia Capital Limited
16th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

or

Daiwa Securities SMBC Hong Kong Limited
Level 26, One Pacific Place
88 Queensway
Hong Kong

or

Barits Securities (Hong Kong) Limited
Room 3406, 34th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

or

CCB International Capital Limited

5th Floor, Tower One
Lippo Centre
89 Queensway
Admiralty
Hong Kong

or

CITIC Capital Markets Limited

26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

or

G. K. Goh Securities (H. K.) Limited

Suite 1808, Alexandra House
16-20 Chater Road
Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

Phillip Securities (HK) Ltd.

11th Floor, United Centre
95 Queensway
Hong Kong

or

Tai Fook Securities Company Limited

25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

or

VC Capital Limited

38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

or any of the following branches of **Bank of China (Hong Kong) Limited**:

Hong Kong Island:

Bank of China Tower Branch	3/F., 1 Garden Road, Central
Central District (Wing On House) Branch	71 Des Voeux Road Central
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
Taikoo Shing Branch	Shop G1012, Yiu Sing Mansion, Taikoo Shing

Kowloon:

Mong Kok Branch	589 Nathan Road, Mong Kok
2 Carnarvon Road Branch	2-2A Carnarvon Road, Tsim Sha Tsui
Stage 6 Mei Foo Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
Canton Road Branch	60 Canton Road, Tsim Sha Tsui

New Territories:

Castle Peak Road (Tsuen Wan) Branch	167 Castle Peak Road, Tsuen Wan
Lucky Plaza Branch	G/F., Lucky Plaza, Wang Pok Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus from:

the Depository Counter of HKSCC

2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

the Customer Service Centre of HKSCC

Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

or your stockbrokers may have forms available.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HOW TO COMPLETE THE APPLICATION FORMS FOR THE HONG KONG OFFER SHARES

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected.

If your application is made through a duly authorised attorney, the Company and the Sponsor, as agents of the Company, may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Any of the Sponsor in its capacity as agent of the Company shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

1. General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or the CCASS Internet System at <https://ip.ccass.com> (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

HKSCC's Customer Service Centre
Upper Ground Floor, V-Heun Building
128-140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your broker or custodian to the Company and our registrars.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

2. Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for Hong Kong Offer Shares,

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each of the persons:
 - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf;
 - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - undertakes and confirms that that person has not applied for or taken up any International Placing Shares under the International Placing nor otherwise participated in the International Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) declares that it has given only one set of **electronic application instructions** for the benefit of that other person, and that it is duly authorised to give those instructions as that other person's agent;
 - understands that the above declaration will be relied upon by the Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if that person makes a false declaration;
 - authorises the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and HKSCC;
 - confirms that that person has read the terms and conditions and application procedures set forth in this prospectus and agrees to be bound by them;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- agrees that the Company, the Underwriters and any other parties involved in the Hong Kong Public Offer are liable only for the information and representations contained in this prospectus;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- agrees to disclose that person's personal data to the Company and its agents and any information which they require about that person;
- agrees that that person cannot revoke **electronic application instructions** before Friday, 18 June, 2004. This agreement will take effect as a collateral contract with the Company and will become binding when that person gives the instructions and such collateral contract will be in consideration of the Company agreeing that it will not offer any Offer Shares to any person before Friday, 18 June, 2004 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Friday, 18 June, 2004 if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the press announcement on results of the Hong Kong Public Offer published by the Company;
- agrees to the arrangement, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

3. Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, you each jointly and severally) are deemed to do the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- instruct and authorise HKSCC to arrange payment of the maximum offer price, brokerage, transaction levy, investor compensation levy and trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or the Offer Price is less than the maximum offer price per Hong Kong Offer Shares initially paid on application, refund of the application money by crediting your designated bank account; or
- instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

4. Minimum application amount and permitted multiples

You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the multiples set forth in the table on the Application Forms.

5. Multiple application

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application. Please refer to the subsection headed “How many applications you may make for the Hong Kong Offer Shares” below in this section for further details.

6. Allocation of Hong Kong Offer Shares

For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

7. Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company and our registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

8. Warning

The subscription of Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company and the Global Coordinator take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Friday, 18 June, 2004.

HOW MANY APPLICATIONS MAY YOU MAKE FOR THE HONG KONG OFFER SHARES

There is only one situation where you may make more than one application for the Hong Kong Offer Shares:

If you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or through giving **electronic application instruction** to HKSCC; and
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or through giving **electronic application instruction** to HKSCC, and that you are duly authorised to sign the Application Form or give **electronic application instruction** as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC; or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 50% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offer; or
- have been allocated the Offer Shares in the International Placing (other than the Hong Kong Offer Shares).

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then that application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- *control the composition of the board of directors of that company; or*
- *control more than half the voting power of that company; or*
- *hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

PRICE PAYABLE UPON APPLICATION FOR THE HONG KONG OFFER SHARES

The maximum Offer Price of the Hong Kong Offer Shares is HK\$2.23 each. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, Stock Exchange trading fee of 0.005% and investor compensation levy of 0.002% imposed by the SFC of the Offer Price on application. This means that for every 2,000 Hong Kong Offer Shares you will pay HK\$4,505.13. The Application Forms have tables showing the exact amount payable for certain multiples of the Hong Kong Offer Shares.

You must pay the maximum Offer Price, the brokerage, the Stock Exchange trading fee, the SFC transaction levy and the investor compensation levy imposed by the SFC in full when you apply for the Hong Kong Offer Shares. For applications on Application Forms, your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

If your application is successful, brokerage is paid to participants of the Stock Exchange, the SFC transaction levy and the investor compensation levy are paid to the SFC and the trading fee is paid to the Stock Exchange.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If the Offer Price as finally determined is less than HK\$2.23 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, investor compensation levy imposed by the SFC and Stock Exchange trading fee attributable to the surplus application monies) will be made to applicants, without interest. Details of the procedures for refund are set forth below in the section headed “Despatch/Collection of Share certificates and refund of application monies”.

TIME FOR APPLYING FOR THE HONG KONG OFFER SHARES

1. WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on Friday, 18 June, 2004, or, if the application lists of the Hong Kong Public Offer are not open on that day, then by 12:00 noon (Hong Kong time) on the day the lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of **Bank of China (Hong Kong) Limited** listed under “Where to collect the prospectuses and the application forms for the Hong Kong Offer Shares” above at the following times:

Tuesday, 15 June, 2004	– 9:00 a.m. to 4:00 p.m.
Wednesday, 16 June, 2004	– 9:00 a.m. to 4:00 p.m.
Thursday, 17 June, 2004	– 9:00 a.m. to 4:00 p.m.
Friday, 18 June, 2004	– 9:00 a.m. to 12:00 noon

The application lists of the Hong Kong Public Offer will open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on Friday, 18 June, 2004.

2. Electronic application instructions to HKSCC via CCASS

CCASS Participants should input **electronic application instructions** at the following times on the following dates:

Tuesday, 15 June, 2004	– 9:00 a.m. to 7:00 p.m.⁽¹⁾
Wednesday, 16 June, 2004	– 9:00 a.m. to 7:00 p.m.⁽¹⁾
Thursday, 17 June, 2004	– 9:00 a.m. to 7:00 p.m.⁽¹⁾
Friday, 18 June, 2004	– 9:00 a.m. to 12:00 noon

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.*

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Friday, 18 June, 2004, or, if the application lists are not open on that day, by the time and date stated in the paragraph “Effects of bad weather on the opening of the application lists of the Hong Kong Public Offer” below.

3. Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 18 June, 2004.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists. No allocation of any of the Hong Kong Offer Shares will be made later than Friday, 18 June, 2004.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS OF THE HONG KONG PUBLIC OFFER

The application lists of the Hong Kong Public Offer will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a **black** rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Friday, 18 June, 2004 in Hong Kong. Instead they will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the application lists of the Hong Kong Public Offer do not open and close on Friday, 18 June, 2004, the dates mentioned in the section headed “Expected timetable of the Hong Kong Public Offer” in this prospectus and the related application forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreement) may be affected. A press announcement will be made in such event in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).

CIRCUMSTANCES IN WHICH AN APPLICANT WILL NOT BE ALLOCATED THE HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

If your application is revoked

By depositing an Application Form or submitting **electronic application instructions** to HKSCC, you agree that you cannot revoke your application before Friday, 18 June, 2004. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC. This collateral contract will be in consideration of our agreeing that we will not offer any Offer Shares to any person before Friday, 18 June, 2004 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application before Friday, 18 June, 2004 if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

For the avoidance of doubt, the Company and all other parties involved in this preparation of the prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

At the full discretion of us or our agents

We and our agents have full discretion to reject or accept any application, or to accept only part of an application. We, and the Underwriters in their capacity as agents for us, and their respective agents or nominees, do not have to give any reason for any rejection or acceptance.

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application;
- your Application Form is not filled in correctly in accordance with the instructions;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares; or
- we believe that by accepting your application, it would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**) will not be accepted if either:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its respective terms.

If the allotment of Hong Kong Offer Shares is void

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the application lists.

PUBLICATION OF RESULTS

The Company expects to publish the level of indication of interests in the International Placing, the results of applications under the Hong Kong Public Offer, the basis of allotment of the Hong Kong Public Offer, the number of Shares, if any, reallocated from the International Placing to the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration certificate number of successful applicants, where applicable, under the Hong Kong Public Offer on Friday, 25 June, 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in the Shares on the Main Board or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application.

Your application monies, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee, SFC transaction levy and investor compensation levy imposed by the SFC, will be refunded without interest if:

- your application is rejected, not accepted or only accepted in part;
- the Offer Price as finally determined is less than the offer price per Share (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy imposed by the SFC thereon) initially paid on application;
- the conditions of the Share Offer are not fulfilled in accordance with the section headed “Structure and conditions of the Share Offer” in this prospectus; or
- any application is revoked or any allocation pursuant thereto has become void.

It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

If you have given **electronic application instructions** to HKSCC via CCASS, your refunds (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Friday, 25 June, 2004. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Friday, 25 June, 2004 or in the activity statement made available to you by HKSCC the day following the credit of refund monies to your designated bank account.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC where share certificates will be deposited into CCASS as described below under the headings “Deposit of share certificates into CCASS”).

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Forms: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful; and/or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque or refund cheques crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including related brokerage fee at the rate of 1.0%, a Stock Exchange trading fee of 0.005%, a SFC transaction levy of 0.005% and an investor compensation levy of 0.002% imposed by the SFC but without interest.

In a contingency situation involving a very high level of over-subscription, at the discretion of the Company and the Global Coordinator, applications for certain small denominations of Hong Kong Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques accompanying such applications on Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques for surplus application monies (if any) on Application Forms and Share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on Friday, 25 June, 2004. We reserve the right to retain any Share certificates and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

If you are applying for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque(s) (where applicable) and/or (for applicants using **WHITE** Application Forms) share certificate(s) (where applicable) from the Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque(s) and (where applicable) share certificate(s) from the Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 25 June, 2004 or any other date notified by us in the newspapers as the date of despatch of share certificates/refund cheques. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s), they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or if you have applied for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your share certificate(s) and/or refund cheque(s) in person, your share certificate(s) (if applying by using a **WHITE** Application Form) and/or refund cheque(s) (if applicable) will be sent to the address on your Application Form on Friday, 25 June, 2004 by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deposit of share certificates into CCASS

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Friday, 25 June, 2004, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Form and the application results of CCASS Participants applying by giving **electronic application instructions** to HKSCC (and where the CCASS Participant is a broker or custodian, we shall include information (if supplied) relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong Business Registration number for corporations) on Friday, 25 June, 2004. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 25 June, 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees. If you are applying as a CCASS Investor Participant by giving **electronic application instructions** to HKSCC, you can also check the result of your application via the CCASS Phone System and CCASS Internet System on Friday, 25 June 2004.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Saturday, 26 June, 2004 (the next day following the credit of the Hong Kong Offer Shares to your stock account). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

COMMENCEMENT OF DEALINGS IN THE SHARES ON THE MAIN BOARD

Dealings in the Shares on the Main Board are expected to commence on 9:30 a.m. (Hong Kong time) on Monday, 28 June, 2004.

Shares will be traded in board lots of 2,000 Shares each. The stock code for the Shares on the Main Board is 2331.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

15 June, 2004

The Directors
Li Ning Company Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Li Ning Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for inclusion in the prospectus of the Company dated 15 June, 2004 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Main Board”).

The Company was incorporated in the Cayman Islands on 26 February, 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as detailed in the section headed “Corporate Reorganisation” in Appendix VI of the Prospectus, which was completed on 5 June, 2004, the Company became the holding company of the other companies comprising the Group. Details of the Company’s subsidiaries are set out in Note 27 of Section II.

All companies now comprising the Group have adopted 31 December as their financial year end date. No audited accounts have been prepared for the Company and RealSports Pte Ltd. since the dates of their incorporation as they have not been involved in any significant business transactions other than the Reorganisation.

The audited consolidated accounts of 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.), the former holding company of all the subsidiaries (the “PRC Companies”) incorporated in the People’s Republic of China (the “PRC”), as at and for the years ended 31 December, 2002 and 2003 were prepared in accordance with the relevant accounting rules and regulations in the PRC and audited by 普華永道中天會計師事務所有限公司 (PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd., formerly known as 張陳會計師事務所 (Zhang Chen CPAs)). No audited accounts have been issued by Li Ning Sports (Shanghai) Co., Ltd. for the year ended 31 December, 2001.

We have audited the consolidated accounts of Li Ning Sports (Shanghai) Co., Ltd., prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board as at and for each of the three years ended 31 December, 2001, 2002 and 2003.

For the purpose of this report, we have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies now comprising the Group for each of the three years ended 31 December, 2001, 2002 and 2003 (“the Relevant Periods”) or since their respective dates of incorporation where this is a shorter period, and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

The financial information as set out in Sections I and II below (the “Financial Information”) has been prepared based on the audited accounts prepared in accordance with IFRS or, where appropriate, the management accounts of the group companies, on the basis set out in Note 1 of Section II, after making such adjustments as are appropriate. The directors of the respective companies now comprising the Group during the Relevant Periods are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Note 1 of Section II, gives a true and fair view of the combined results and combined cash flows of the Group for the Relevant Periods and the combined state of affairs of the Group as at 31 December, 2001, 2002 and 2003.

I. COMBINED ACCOUNTS

(a) Combined profit and loss accounts

The following is a summary of the combined profit and loss accounts of the Group for the Relevant Periods, prepared on the basis as set out in Note 1 of Section II below, after making such adjustments as are appropriate:

	<i>Section II Note</i>	Year ended 31 December,		
		2001	2002	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	734,935	958,005	1,276,224
Costs of sales		(447,736)	(528,148)	(670,305)
Gross profit		287,199	429,857	605,919
Other revenue	4	7,263	7,126	8,146
Distribution expenses		(128,557)	(222,581)	(335,717)
Administrative expenses		(88,846)	(104,561)	(121,049)
Other operating expenses		(11,858)	(6,494)	(38,190)
Operating profit	5	65,201	103,347	119,109
Finance costs, net	6	(6,111)	(7,392)	(4,546)
Profit before taxation		59,090	95,955	114,563
Taxation	7	(8,634)	(28,130)	(22,029)
Profit after taxation		50,456	67,825	92,534
Minority interests		(836)	(936)	1,426
Profit for the year	22	<u>49,620</u>	<u>66,889</u>	<u>93,960</u>
Dividends	8, 22	<u>17,182</u>	<u>23,970</u>	<u>65,772</u>
Basic earnings per Share (<i>RMB cents</i>)	9	<u>6.62</u>	<u>8.92</u>	<u>12.53</u>

(b) Combined balance sheets

The following is a summary of the combined balance sheets of the Group as at 31 December, 2001, 2002 and 2003 prepared on the basis as set out in Note 1 of Section II below, after making such adjustments as are appropriate:

	<i>Section II Note</i>	As at 31 December,		
		2001	2002	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	12	85,449	80,173	81,484
Land use rights	13	4,678	4,471	4,264
Intangible assets	14	1,480	1,845	3,775
		<u>91,607</u>	<u>86,489</u>	<u>89,523</u>
Current assets				
Inventories	15	179,954	228,825	296,239
Accounts receivable	16	57,951	83,031	120,059
Other receivables and prepayments	17	47,756	44,636	37,469
Cash and cash equivalents		111,850	127,652	224,488
		<u>397,511</u>	<u>484,144</u>	<u>678,255</u>
Total assets		<u>489,118</u>	<u>570,633</u>	<u>767,778</u>
EQUITY AND LIABILITIES				
Issued capital	21	6	6	8
Reserves	22	148,683	215,572	389,024
Owners' equity		<u>148,689</u>	<u>215,578</u>	<u>389,032</u>
Minority interests	23	<u>16,197</u>	<u>17,295</u>	<u>15,869</u>
LIABILITIES				
Current liabilities				
Trade payables	18	65,504	127,926	171,581
Other payables and accruals	19	89,005	66,880	91,608
Short-term borrowings	20	144,114	131,000	85,000
Taxation payable		7,647	11,677	14,688
Dividends payable		17,962	277	–
Total liabilities		<u>324,232</u>	<u>337,760</u>	<u>362,877</u>
Total equity and liabilities		<u>489,118</u>	<u>570,633</u>	<u>767,778</u>

(c) Combined statements of changes in owners' equity

The following is a summary of the combined statements of changes in owners' equity of the Group for the Relevant Periods, prepared on the basis set out in Note 1 of Section II below, after making such adjustments as are appropriate:

	<i>Section II Note</i>	Year ended 31 December,		
		2001	2002	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total owners' equity, at beginning of year		146,251	148,689	215,578
Profit for the year	22	49,620	66,889	93,960
Dividends declared	22	(47,182)	–	(23,970)
Issuance of shares of a subsidiary	22	–	–	103,464
Total owners' equity, at end of year		<u>148,689</u>	<u>215,578</u>	<u>389,032</u>

(d) Combined cash flow statements

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods, prepared on the basis as set out in Note 1 of Section II below, after making such adjustments as are appropriate:

	<i>Section II Note</i>	Year ended 31 December,		
		2001	2002	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities				
Cash generated from operations	24(a)	56,842	65,763	112,192
Interest paid		(7,442)	(8,148)	(5,710)
Income tax paid		(20,088)	(14,558)	(19,018)
		<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities		<u>29,312</u>	<u>43,057</u>	<u>87,464</u>
Cash flows from investing activities				
Purchase of property, plant and equipment		(12,332)	(13,972)	(22,282)
Purchase of intangible assets		(240)	(855)	(2,847)
Proceeds from disposals of property, plant and equipment		1,395	6,930	161
Interest received		1,062	756	1,123
		<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		<u>(10,115)</u>	<u>(7,141)</u>	<u>(23,845)</u>
Cash flows from financing activities				
Proceeds from issuance of shares of a subsidiary	24(b)	–	–	103,464
Proceeds from minority shareholders		–	162	–
Proceeds from borrowings		125,473	56,000	85,000
Repayment of borrowings		(112,860)	(69,114)	(131,000)
Dividends paid		(30,000)	(7,162)	(24,247)
		<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/generated from financing activities		<u>(17,387)</u>	<u>(20,114)</u>	<u>33,217</u>
Increase in cash and cash equivalents		1,810	15,802	96,836
Cash and cash equivalents at beginning of the year		<u>110,040</u>	<u>111,850</u>	<u>127,652</u>
Cash and cash equivalents at end of the year	24(c)	<u><u>111,850</u></u>	<u><u>127,652</u></u>	<u><u>224,488</u></u>

II. NOTES TO THE COMBINED ACCOUNTS

1. Basis of preparation

The Company was incorporated on 26 February, 2004. Pursuant to an agreement entered into between the Company and the respective shareholders of RealSports Pte Ltd. ("RealSports"), the Company acquired the entire issued share capital of RealSports by issuance of 750,000,000 shares to the then shareholders of RealSports on 5 June, 2004 and became the holding company of the other companies comprising the Group.

The accompanying combined profit and loss accounts and combined cash flow statements include the results of operations and cashflows of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the Relevant Periods or since their effective dates of incorporation. The accompanying combined balance sheets have been prepared to present the financial position of the Group as at 31 December, 2001, 2002 and 2003 as if the current group structure had been in existence since 1 January, 2001.

The names of some of the companies referred to in this section represent management's translation of the Chinese names of these companies as no English names have been registered.

2. Principal accounting policies

The Financial Information set out in this report has been prepared in accordance with IFRS under the historical cost convention.

(a) Basis of combination

The combined accounts include the financial statements of the Company and its subsidiaries. The results of operations of subsidiaries are included in the combined profit and loss accounts and the share attributable to minority interests is deducted from the combined net profit. Minority interests in the combined balance sheet represent the interests of outside shareholders in the net assets of the companies now comprising the Group. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses, if any, are also eliminated unless cost cannot be recovered.

(b) Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated. Subsidiaries are included from the date on which control is transferred to the Group and are excluded from the date that control ceased.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition for its intended use.

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

Buildings	20-40 years
Machinery	10-18 years
Motor vehicles and office equipment	3-12 years

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the combined profit and loss account.

(d) *Construction-in-progress*

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost, includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2 (c) of this section.

(e) *Land use rights*

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represented consideration paid for the rights to use the land in the PRC 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.

(f) *Intangible assets*

(i) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

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

(ii) Trademark

Expenditure to acquire trademark is capitalised and amortised using the straight-line method over their useful lives not exceeding a period of 10 years and is not revalued.

(g) *Impairment for long live assets*

Property, plant and equipment, land use rights and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) *Accounts receivables*

Accounts receivables are carried at original invoice amounts less provision made for impairment of these receivables. Such provision for impairment of accounts receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(j) *Cash and cash equivalents*

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

(k) *Borrowings*

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

(l) *Borrowing costs*

All borrowing costs are expensed as incurred.

(m) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined accounts. Currently enacted tax rates are used in the determination of deferred income tax.

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

Deferred income tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) *Employee benefits*

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. Contributions to these plans are expensed as incurred.

(o) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) *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 combined profit and loss account on a straight-line basis over the period of the lease.

(q) *Foreign currency translation*

(i) Measurement currency

Items included in the combined accounts of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the “measurement currency”). The combined accounts are presented in Renminbi, which is the measurement currency of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into measurement currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in other currencies are translated into measurement currency at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the combined profit and loss accounts.

(r) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the combined accounts, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

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

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

(s) *Revenue recognition*

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

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

(t) *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 combined profit and loss accounts over the period necessary to match them with the costs they are intended to compensate.

(u) *Financial instruments*

Financial instruments carried on the combined balance sheet include cash, cash equivalents and short-term borrowings, financial assets and liabilities. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Disclosures about financial instruments of the Group are provided in Note 29 of this section.

(v) *Dividends*

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

(w) *Related parties*

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(x) *Segment reporting*

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

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

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

3. **Turnover and segment information**

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

Primary reporting format – business segment

The Group operated in one business segment which is principally engaged in design, manufacturing and sales of sport-related footwear, apparel and accessories.

Secondary reporting format – geographical segment

All assets and operations of the Group for the Relevant Periods were located in the PRC, which is considered as one geographical location in an economic environment with similar risk and returns. No geographical segments analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

4. **Other revenue**

Other revenue mainly comprised grants from local government amounting to RMB6,904,000, RMB6,946,000 and RMB8,114,000 for the years ended 31 December, 2001, 2002 and 2003 respectively.

5. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Charging/(crediting)			
Amortisation of land use rights	207	207	207
Amortisation of intangible assets			
– trademark	–	40	106
– computer software	417	450	811
Costs of inventories recognised as expenses included in cost of sales	442,432	519,465	659,462
Depreciation on property, plant and equipment	9,842	8,407	14,049
Loss on disposals of property, plant and equipment	698	4,488	3,185
Operating lease rentals in respect of land and buildings	17,649	28,879	40,177
Accounts receivable – impairments charge for doubtful debt	75	1,862	14,894
Impairment of property, plant and equipment	–	–	5,151
Staff costs including directors' emoluments (<i>Note 11</i>)	58,105	79,448	124,599
Write-down/(write back) of inventories to net realisable value	2,685	(862)	11,873
	<u>2,685</u>	<u>(862)</u>	<u>11,873</u>

6. Finance costs, net

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Interest expenses on bank borrowings			
– wholly repayable within 5 years	6,856	7,590	5,710
Interest on other borrowings			
– wholly repayable within 5 years	537	558	–
	<u>7,393</u>	<u>8,148</u>	<u>5,710</u>
Interest income on bank balances and deposit	(1,062)	(756)	(1,123)
Foreign currency exchange gains, net	(220)	–	(41)
	<u>(1,282)</u>	<u>(756)</u>	<u>(1,164)</u>
	<u>6,111</u>	<u>7,392</u>	<u>4,546</u>

7. Taxation

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
PRC current income tax	8,634	28,130	22,029

Provision for PRC enterprise income tax is calculated based on statutory tax rate of 33% of the assessable income of each of the companies now comprising the Group, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% based on the relevant PRC tax laws and regulations.

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

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Profit before taxation	59,090	95,955	114,563
Tax calculated at a tax rate of 33%	19,500	31,665	37,806
Preferential tax rates on the income of certain subsidiaries	(2,082)	(12,237)	(23,597)
Expenses not deductible for tax purposes	2,216	23,233	23,939
Income not subject to tax	–	(14,531)	(16,119)
Effect of income tax refund of subsidiaries	(11,000)	–	–
Taxation charge	8,634	28,130	22,029

Deferred tax assets of approximately RMB20,915,000, RMB22,395,000 and RMB28,549,000 as at 31 December, 2001, 2002 and 2003, respectively, in respect of provision for accounts receivable and inventory and other expenses have not been provided for, as there is no reasonable certainty that the Group would obtain approvals from the relevant tax authorities.

8. Dividends

The Company was incorporated in the Cayman Islands on 26 February, 2004. During the Relevant Periods, no dividends have been paid or declared by the Company. The dividends disclosed during the Relevant Periods represent dividends declared by Li Ning Sports (Shanghai) Co., Ltd. or RealSports, the intermediate holding companies, to their then shareholders.

At a board meeting held on 2 November, 2001 and 1 July, 2003, the directors of Li Ning Sports (Shanghai) Co., Ltd. declared a dividend for the financial years ended 31 December, 2001 and 2002 amounting to RMB17,182,000 and RMB23,970,000 respectively.

At a board meeting held on 29 March, 2004, the directors of RealSports declared a dividend for the financial year ended 31 December, 2003 amounting to RMB65,772,000.

These proposed dividends are reflected as appropriations of retained earnings in the respective financial years when they were declared.

9. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the Relevant Periods and on the 750,000,000 shares issued pursuant to the Reorganisation as detailed in appendix VI to the Prospectus, as if these shares have been in issue on 1 January, 2001.

No diluted earnings per share has been presented as the Company has no dilutive potential shares.

10. Emoluments for directors and five highest paid individuals*(a) Directors' emoluments*

The Company was incorporated in the Cayman Islands on 26 February, 2004. The aggregate amounts of emoluments paid and payable to the directors of the Company by the Group during the Relevant Periods are as follows:

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fees	–	–	–
Salaries and allowances	1,469	1,753	3,910
Contribution to retirement benefit scheme	89	107	106
	<u>1,558</u>	<u>1,860</u>	<u>4,016</u>

The emoluments of the directors of the Company fell within the following band:

	Number of directors		
	Year ended 31 December,		
	2001	2002	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	3	3	6
RMB1,060,001 (equivalent to HK\$1,000,001) to RMB1,590,000 (equivalent to HK\$1,500,000)	–	–	1
	<u>3</u>	<u>3</u>	<u>7</u>

None of the directors of the Company waived any emoluments during the Relevant Periods.

(b) Five highest paid individuals

	Year ended 31 December,		
	2001	2002	2003
Directors	3	3	4
Employees	2	2	1
	<u>5</u>	<u>5</u>	<u>5</u>

The five individuals whose emoluments were the highest in the Group included three, three and four Directors for the year ended 31 December 2001, 2002 and 2003, respectively 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 Relevant Periods are as follows:

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Salaries and allowances	599	734	669
Contributions to retirement benefit scheme	33	52	26
	632	786	695
	632	786	695

The emoluments fell within the following bands:

	Number of individuals		
	Year ended 31 December,		
	2001	2002	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	2	2	1
	2	2	1

- (c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Staff costs, including directors' emoluments

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Wages, salaries and other benefits	54,853	74,730	115,323
Contributions to retirement benefit scheme	3,252	4,718	9,276
	58,105	79,448	124,599
	58,105	79,448	124,599

The average number of employees in 2001, 2002 and 2003 were 2,036, 2,526 and 3,131 respectively.

12. Property, plant and equipment

	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December, 2001					
Opening net book amount	61,419	6,355	17,706	176	85,656
Additions	551	759	9,541	877	11,728
Disposals	–	(69)	(971)	(1,053)	(2,093)
Depreciation charge	(3,684)	(2,221)	(3,937)	–	(9,842)
Closing net book amount	<u>58,286</u>	<u>4,824</u>	<u>22,339</u>	<u>–</u>	<u>85,449</u>
At 31 December, 2001					
Cost	71,661	13,775	37,547	–	122,983
Accumulated depreciation	(13,375)	(8,951)	(15,208)	–	(37,534)
Net book amount	<u>58,286</u>	<u>4,824</u>	<u>22,339</u>	<u>–</u>	<u>85,449</u>
Year ended 31 December, 2002					
Opening net book amount	58,286	4,824	22,339	–	85,449
Additions	574	2,877	10,031	1,067	14,549
Disposals	(2,309)	(26)	(9,083)	–	(11,418)
Depreciation charge	(2,813)	(1,230)	(4,364)	–	(8,407)
Closing net book amount	<u>53,738</u>	<u>6,445</u>	<u>18,923</u>	<u>1,067</u>	<u>80,173</u>
At 31 December, 2002					
Cost	68,409	14,133	36,653	1,067	120,262
Accumulated depreciation	(14,671)	(7,688)	(17,730)	–	(40,089)
Net book amount	<u>53,738</u>	<u>6,445</u>	<u>18,923</u>	<u>1,067</u>	<u>80,173</u>
Year ended 31 December, 2003					
Opening net book amount	53,738	6,445	18,923	1,067	80,173
Additions	1,461	1,786	20,247	363	23,857
Disposals	(1,395)	(371)	(1,580)	–	(3,346)
Transfer	2,745	–	(1,315)	(1,430)	–
Impairment charge	(5,151)	–	–	–	(5,151)
Depreciation charge	(3,814)	(667)	(9,568)	–	(14,049)
Closing net book amount	<u>47,584</u>	<u>7,193</u>	<u>26,707</u>	<u>–</u>	<u>81,484</u>
At 31 December, 2003					
Cost	70,873	11,442	50,844	–	133,159
Accumulated depreciation	(23,289)	(4,249)	(24,137)	–	(51,675)
Net book amount	<u>47,584</u>	<u>7,193</u>	<u>26,707</u>	<u>–</u>	<u>81,484</u>

13. Land use rights

	<i>RMB'000</i>
Year ended 31 December, 2001	
Opening net book amount	4,885
Amortisation charge	<u>(207)</u>
Closing net book amount	<u><u>4,678</u></u>
At 31 December, 2001	
Cost	5,390
Accumulated amortisation	<u>(712)</u>
Net book amount	<u><u>4,678</u></u>
Year ended 31 December, 2002	
Opening net book amount	4,678
Amortisation charge	<u>(207)</u>
Closing net book amount	<u><u>4,471</u></u>
At 31 December, 2002	
Cost	5,390
Accumulated amortisation	<u>(919)</u>
Net book amount	<u><u>4,471</u></u>
Year ended 31 December, 2003	
Opening net book amount	4,471
Amortisation charge	<u>(207)</u>
Closing net book amount	<u><u>4,264</u></u>
At 31 December, 2003	
Cost	5,390
Accumulated amortisation	<u>(1,126)</u>
Net book amount	<u><u>4,264</u></u>

14. Intangible assets

	Trademark <i>RMB'000</i>	Computer software <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December, 2001			
Opening net book amount	–	1,657	1,657
Additions	–	240	240
Amortisation charge	–	(417)	(417)
	<u>–</u>	<u>1,480</u>	<u>1,480</u>
Closing net book amount	<u>–</u>	<u>1,480</u>	<u>1,480</u>
At 31 December, 2001			
Cost	–	2,390	2,390
Accumulated amortisation	–	(910)	(910)
	<u>–</u>	<u>1,480</u>	<u>1,480</u>
Net book amount	<u>–</u>	<u>1,480</u>	<u>1,480</u>
Year ended 31 December, 2002			
Opening net book amount	–	1,480	1,480
Additions	639	216	855
Amortisation charge	(40)	(450)	(490)
	<u>599</u>	<u>1,246</u>	<u>1,845</u>
Closing net book amount	<u>599</u>	<u>1,246</u>	<u>1,845</u>
At 31 December, 2002			
Cost	639	2,606	3,245
Accumulated amortisation	(40)	(1,360)	(1,400)
	<u>599</u>	<u>1,246</u>	<u>1,845</u>
Net book amount	<u>599</u>	<u>1,246</u>	<u>1,845</u>
Year ended 31 December, 2003			
Opening net book amount	599	1,246	1,845
Additions	887	1,960	2,847
Amortisation charge	(106)	(811)	(917)
	<u>1,380</u>	<u>2,395</u>	<u>3,775</u>
Closing net book amount	<u>1,380</u>	<u>2,395</u>	<u>3,775</u>
At 31 December, 2003			
Cost	1,526	4,566	6,092
Accumulated amortisation	(146)	(2,171)	(2,317)
	<u>1,380</u>	<u>2,395</u>	<u>3,775</u>
Net book amount	<u>1,380</u>	<u>2,395</u>	<u>3,775</u>

15. Inventories

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Raw materials	8,606	11,787	21,064
Work in progress	2,051	3,624	3,418
Finished goods	212,772	256,027	287,186
	<u>223,429</u>	<u>271,438</u>	<u>311,668</u>
Less: provision for impairment losses	(43,475)	(42,613)	(15,429)
	<u>179,954</u>	<u>228,825</u>	<u>296,239</u>

As at 31 December, 2001, 2002 and 2003, inventories subject to provisioning stated at net realisable value amounted to approximately RMB66,299,000, RMB62,770,000 and RMB34,619,000 respectively. As at 31 December, 2001, 2002 and 2003, inventories amounting to Nil, RMB60,000,000 and Nil were pledged for bank facilities granted to the Group.

16. Accounts receivables

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Gross accounts receivables	58,245	85,187	137,109
Less: provision for impairment of receivables	(294)	(2,156)	(17,050)
	<u>57,951</u>	<u>83,031</u>	<u>120,059</u>

Included in accounts receivables is an amount due from a related company of Nil, RMB1,135,000 and RMB2,894,000 as at 31 December, 2001, 2002 and 2003, respectively (Note 26(b)).

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

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
0-30 days	42,092	56,694	83,767
31-60 days	3,853	8,197	24,832
61-90 days	2,497	7,915	8,568
91-180 days	4,549	6,186	7,621
181-365 days	3,958	3,483	7,101
Over 365 days	1,296	2,712	5,220
	<u>58,245</u>	<u>85,187</u>	<u>137,109</u>

17. Other receivables and prepayments

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Advances to suppliers	5,265	18,070	10,765
Due from related parties (Note 26(b))	10,523	–	–
Other receivables	28,687	17,772	11,916
Prepaid expenses	3,281	8,794	14,788
	<u>47,756</u>	<u>44,636</u>	<u>37,469</u>

18. 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 are as follows:

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
0-30 days	37,519	53,752	163,764
31-60 days	2,313	46,406	1,455
61-90 days	11,838	834	5,692
91-180 days	3,263	7,839	611
181-365 days	6,527	14,571	49
Over 365 days	4,044	4,524	10
	<u>65,504</u>	<u>127,926</u>	<u>171,581</u>

19. Other payables and accruals

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Accrued expenses	5,655	5,719	16,533
Advances from customers	14,181	10,242	20,284
Other payables	29,403	24,374	10,360
Wages payables	4,865	6,112	21,572
Welfare payables	19,038	17,608	22,339
Due to related parties (<i>Note 26(b)</i>)	15,863	2,825	520
	<u>89,005</u>	<u>66,880</u>	<u>91,608</u>

20. Short-term borrowings

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Bank borrowings – unsecured (<i>Note (a)</i>)	128,000	131,000	85,000
Amounts due to employees – unsecured	10,473	–	–
Amounts due to related companies (<i>Note 26(c)</i>) – unsecured	5,641	–	–
	<u>144,114</u>	<u>131,000</u>	<u>85,000</u>

(a) Borrowings facilities

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Guarantees provided by:			
– Cross guarantee given by the subsidiaries of the Group	53,000	101,000	85,000
– minority shareholder of a subsidiary	60,000	–	–
– a third party	15,000	30,000	–
	<u>128,000</u>	<u>131,000</u>	<u>85,000</u>

The balances bore fixed interest rates of 5.31% to 7.82% per annum during the Relevant Periods.

- (b) All short-term borrowings except for amounts due to related companies are interest bearing, and the exposure of the borrowings of the Group to interest rate change and the weighted average effective annual interest rates were 6.25%, 5.39% and 5.31% for the years ended 31 December, 2001, 2002 and 2003 respectively.

21. Issued capital

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Balance at 1 January	6	6	6
Issue of capital	–	–	2
	<u>6</u>	<u>6</u>	<u>8</u>
Balance at 31 December	<u>6</u>	<u>6</u>	<u>8</u>

The Company was incorporated in the Cayman Islands on 26 February, 2004. The issued capital as at respective balance sheet dates represented the issued share capital of RealSports, the former holding company of the Group. For the purpose of this report, the initial share capital of US\$754, represent 75,376 shares at US\$0.01 each (approximately RMB6,000) of RealSports were assumed to have been issued on 1 January, 2001. In January 2003, 24,624 additional shares at US\$0.01 each (approximately RMB2,000) were issued at premium by RealSports. Such premium amounting RMB153,122,000 (US\$18,499,754) were charged to capital reserves (Note 22(a)(ii)).

22. Reserves

	Capital reserves RMB'000	Statutory reserve fund (b) RMB'000	Statutory staff welfare fund (b) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January, 2001	61,732	15,112	7,556	61,845	146,245
Net profit for the year	–	–	–	49,620	49,620
Profit appropriations to statutory reserves	–	2,337	1,168	(3,505)	–
2000 dividends declared	–	–	–	(30,000)	(30,000)
2001 dividends declared	–	–	–	(17,182)	(17,182)
	<u>61,732</u>	<u>17,449</u>	<u>8,724</u>	<u>60,778</u>	<u>148,683</u>
At 31 December, 2001	61,732	17,449	8,724	60,778	148,683
Net profit for the year	–	–	–	66,889	66,889
Profit appropriations to statutory reserves	–	20,030	6,161	(26,191)	–
	<u>61,732</u>	<u>37,479</u>	<u>14,885</u>	<u>101,476</u>	<u>215,572</u>
At 31 December, 2002	61,732	37,479	14,885	101,476	215,572
Effect of group reorganisation	103,462	–	–	–	103,462
Net profit for the year	–	–	–	93,960	93,960
Profit appropriations to statutory reserves	–	4,897	2,449	(7,346)	–
2002 dividends declared	–	–	–	(23,970)	(23,970)
	<u>165,194</u>	<u>42,376</u>	<u>17,334</u>	<u>164,120</u>	<u>389,024</u>
At 31 December, 2003	165,194	42,376	17,334	164,120	389,024

(a) Capital reserves

- (i) Capital reserves of the Group as at 1 January, 2001 comprised the registered capital of Li Ning Sports (Shanghai) Co., Ltd. ("Shanghai Li Ning"), the former holding company of all PRC subsidiaries, as well as contribution by the then shareholders of Shanghai Li Ning prior to 1 January, 2001.
- (ii) Effect of group reorganisation represented the share premium of RMB153,122,000 arising from the issuance of shares by RealSports, offset by RMB49,660,000 (US\$6,000,000) paid by the Group to the former shareholders of Shanghai Li Ning as consideration for acquiring the entire interest in Shanghai Li Ning pursuant to the group reorganisation. Shanghai Li Ning was the holding company of the PRC Companies prior to the aforesaid group reorganisation.

(b) Statutory reserves

Under the relevant PRC laws and regulations, the PRC Companies are required to appropriate certain percentage of their respective net profit to two statutory funds - the statutory common reserve fund and the statutory staff welfare fund. Details of the two funds are as follow:

(i) Statutory reserve fund

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

(ii) Statutory staff welfare fund

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

(c) Distributable reserves

The Company was incorporated on 26 February, 2004 and accordingly, it has no reserves available for distribution to the shareholders as at 31 December, 2003.

23. Minority interests

	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity interests:			
At 1 January	15,361	16,197	17,295
Additions	–	162	–
Share of net profit/(loss) of subsidiaries	836	936	(1,426)
	<u>16,197</u>	<u>17,295</u>	<u>15,869</u>
At 31 December	<u>16,197</u>	<u>17,295</u>	<u>15,869</u>

24. Notes to combined cash flow statements

(a) Reconciliation of profit for the year to cash inflow generated from operations

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Profit before taxation	59,090	95,955	114,563
Adjustments for:			
Depreciation	9,842	8,407	14,049
Amortisation	624	697	1,124
Impairment of property, plant and equipment	–	–	5,151
Impairment charge on accounts receivable	75	1,862	14,894
Write-down/(write back) of inventories to net realisable value	2,685	(862)	11,873
Loss on disposals of property, plant and equipment	698	4,488	3,185
Interest income	(1,062)	(756)	(1,123)
Interest expense	7,393	8,148	5,710
Foreign currency exchange gain, net	(220)	–	(41)
Operating profit before working capital changes	79,125	117,939	169,385
Increase in inventories	(16,709)	(48,009)	(79,287)
Increase in accounts receivables	(16,262)	(26,942)	(51,922)
Decrease/(increase) in other receivable and prepayments	1,477	(6,395)	7,208
Increase in trade payable	14,558	62,422	43,655
(Decrease)/increase in other payables and accruals	(5,347)	(33,252)	23,153
Cash inflow generated from operations	<u>56,842</u>	<u>65,763</u>	<u>112,192</u>

(b) Analysis of changes in financing during the year

(i) Borrowings	2001 RMB'000	2002 RMB'000	2003 RMB'000
At 1 January	131,501	144,114	131,000
Proceeds from borrowings	125,473	56,000	85,000
Repayments of borrowings	(112,860)	(69,114)	(131,000)
At 31 December	<u>144,114</u>	<u>131,000</u>	<u>85,000</u>

(ii) Analysis of changes in minority interests is disclosed in Note 23.

(c) Cash and cash equivalents

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cash and bank balances	<u>111,850</u>	<u>127,652</u>	<u>224,488</u>

(d) Non-cash transaction

During the year ended 31 December, 2002, dividend payable of approximately RMB10,523,000 was settled by offsetting balance due from the then shareholders of a subsidiary.

25. Operating lease commitments

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

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
No later than one year	8,547	23,800	34,727
Later than one year and not later than five years	9,825	21,843	62,758
	<u>18,372</u>	<u>45,643</u>	<u>97,485</u>

26. Related parties transactions

In addition to the related party transactions undertaken in connection with the Reorganisation described in Note 1 and bank guarantees given by related parties and directors' emolument as disclosed in Note 20(a) and Note 10 above, during the Relevant Periods, the Group entered into various transactions with related parties set out below:

(a) Summary of significant related party transactions during the Relevant Periods:

	Year ended 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
<i>Discontinuing-</i>			
Royalty fee paid to:			
- 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.) formerly known as 上海李寧企業管理有限公司 (Shanghai Li Ning Corporate Management Co., Ltd.), a former holding company of the Group	22,682	-	-
<i>Continuing-</i>			
Sales of goods to:			
- 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by family members of a director, Chen Yi Hong	1,964	4,592	10,656
- 北京亞特蘭商貿有限公司 (Beijing Ya Te Lan Trading Co., Ltd.), a company controlled by family members of a director, Chen Yi Hong	792	619	-
- 北京都市兄弟經貿有限公司 (Beijing Metropolitan Brothers Trading Co., Ltd.), a company controlled by family members of a director, Chen Yi Hong	-	-	1,599
	<u>2,756</u>	<u>5,211</u>	<u>12,255</u>
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 Shanghai Ning Sheng Corporate Management Co. Ltd.	-	-	2,350

In the opinion of the Directors, these transactions were entered into at terms as agreed with these related parties in the ordinary of course of business. The LI-NING trademark was transferred to the Group at nil consideration on 1 January, 2002, no royalty fee was paid by the Group thereafter.

(b) The significant balances with related parties at end of each year are as follows:

	As at 31 December,		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Balances with related parties included in:			
Other receivables			
– Shanghai Ning Sheng Corporate Management Co., Ltd	8,439	–	–
– 上海力發體育用品有限公司 (Shanghai Li Fa Sporting Goods Co., Ltd.), a former minority shareholder of the Group	2,084	–	–
	<u>10,523</u>	<u>–</u>	<u>–</u>
Other payables			
– Shanghai Ning Sheng Corporate Management Co., Ltd	15,663	2,625	320
– Li Ning Sport Goods (HK) Co., Ltd., a company controlled by a shareholder	200	200	200
	<u>15,863</u>	<u>2,825</u>	<u>520</u>
Amounts due to related companies			
– 北京佳利風體育發展有限公司 (Beijing Jia Li Feng Sports Development Co., Ltd.) and its group companies	5,641	–	–
Amounts due from related company included in accounts receivable			
– Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.	–	1,135	2,894
Dividends payable			
– Shanghai Ning Sheng Corporate Management Co., Ltd.	14,702	–	–
– Shanghai Li Fa Sporting Goods Co., Ltd.	3,260	277	–
	<u>17,962</u>	<u>277</u>	<u>–</u>

Note: The above balance are interest free, unsecured and have no fixed term of repayment.

27. Group structure

As at the date of this report, the Company held interests in the following subsidiaries:

Name	Place of operation and incorporation and date of incorporation	Issued share/paid up capital	Equity interest held by the Company	Principal activities
<i>Directly held:</i>				
RealSports Pte Ltd.	The British Virgin Islands 8 October, 2002	US\$1,000	100%	Investment holding
<i>Indirectly held:</i>				
Li Ning Sports (Hong Kong) Co., Ltd. (h)	Hong Kong 19 March, 2003	HK\$1,000	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 sporting goods
北京李寧體育用品有限公司 (Beijing Li Ning Sporting Goods., Co., Ltd.) (a)	The PRC, 4 November, 1997	RMB50,000,000	100%	Sale of sporting goods
北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.) (b)	The PRC, 18 April, 2002	RMB800,000	80%	Sale of sporting goods
上海狐步體育用品有限公司 (Shanghai HuBu Sporting Goods Co., Ltd.) (c)	The PRC, 20 April, 2000	RMB2,000,000	100%	Provision of logistics and management information system
上海少昊體育用品有限公司 (Shanghai Shao Hao Sporting Goods Co., Ltd.) (d)	The PRC, 18 December, 2001	RMB3,000,000	100%	Product design, research and development
上海悅奧體育用品有限公司 (Shanghai Yue Ao Sporting Goods Co., Ltd.) (e)	The PRC, 5 March, 2003	RMB3,000,000	100%	Sale of sporting goods
佛山李寧體育學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.)	The PRC, 31 October, 1996	RMB1,000,000	100%	Property management
廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.), formerly known as 廣東健力寶運動服裝有限公司 (Guangdong Jianlibow Sportswear Co., Ltd.) (f)	The PRC, 13 December, 2001	RMB8,240,000	80%	Product manufacturing
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.) (b)	The PRC, 9 July, 2001	RMB10,000,000	100%	Sale of sporting goods

Name	Place of operation and incorporation and date of incorporation	Issued share/paid up capital	Equity interest held by the Company	Principal activities
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.) (b)	The PRC, 25 June, 1998	RMB2,750,000	100%	Sale of sporting goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.) (b)	The PRC, 6 August, 1998	RMB1,200,000	100%	Sale of sporting goods
長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.) (b)	The PRC, 26 August, 1998	RMB1,000,000	100%	Sale of sporting goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.) (b)	The PRC, 29 July, 1998	RMB500,000	100%	Sale of sporting goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.) (b)	The PRC, 10 June, 1999	RMB1,000,000	100%	Sale of sporting goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.) (b)	The PRC, 24 June, 1999	RMB1,000,000	100%	Sale of sporting goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.) (b)	The PRC, 2 June, 1999	RMB1,000,000	100%	Sale of sporting goods
杭州一動體育用品銷售有限公司 (Hangzhou Edosports Goods Sales Co., Ltd.) (b)	The PRC, 5 August, 1999	RMB1,000,000	100%	Sale of sporting goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sporting Goods Sales Co., Ltd.) (b)	The PRC, 1 November, 1999	RMB5,000,000	100%	Sale of sporting goods
石家莊一動體育用品銷售有限公司 (Shijiazhuang Edosports Goods Sales Co., Ltd.) (b)	The PRC, 12 November, 1999	RMB1,000,000	100%	Sale of sporting goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.) (b)	The PRC, 8 August, 2000	RMB5,000,000	100%	Sale of sporting goods
天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.) (b)	The PRC, 14 December, 1999	RMB3,500,000	100%	Sale of sporting goods
南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.) (g)	The PRC, 15 April, 2003	RMB1,000,000	100%	Sale of sporting goods

- (a) 北京京都會計師事務所有限責任公司 (Beijing Jing Du Certified Public Accountants Co., Ltd.) acted as the statutory auditor of this entity for the financial years ended 31 December, 2001, 2002 and 2003.

- (b) Beijing Jing Du Certified Public Accountants Co., Ltd. acted as the statutory auditor of these entities for the financial years ended 31 December, 2002 and 2003.
- (c) 上海立信長江會計師事務所有限公司 (Shanghai Shu Lun Pan Certified Public Accountants Co., Ltd.) acted as the statutory auditor of this entity for the financial years ended 31 December, 2001 and 2003. 上海華誠會計師事務所 (Shanghai Huacheng Certified Public Accountants Co., Ltd.) acted as the statutory auditor of this entity for the financial year ended 31 December, 2002.
- (d) 上海復興明方會計師事務所 (Shanghai Fu Xing Ming Fang Certified Public Accountants Co., Ltd.) acted as the statutory auditor for this entity for the financial year ended 31 December, 2002. Shanghai Shu Lun Pan Certified Public Accountants Co., Ltd. acted as the statutory auditor of this entity for the financial year ended 31 December, 2003.
- (e) Shanghai Shu Lun Pan Certified Public Accountants Co., Ltd. acted as the statutory auditor of this entity for the financial year ended 31 December, 2003.
- (f) 三水市正大會計師事務所 (Sanshui Zheng Da Certified Public Accountants Ltd.) acted as the statutory auditor of this entity for the financial years ended 31 December, 2001, 2002 and 2003.
- (g) Beijing Jing Du Certified Public Accountants Co., Ltd. acted as the statutory auditor of this entity for the financial year ended 31 December, 2003.
- (h) PricewaterhouseCoopers acted as the statutory auditor of this entity for the period from 19 March, 2003 (date of incorporation) to 31 December, 2003.
- (i) All the Group's subsidiaries established in the PRC are limited liability companies.

28. Contingent liabilities

The Group and the Company had no material contingent liabilities as at 31 December, 2001, 2002 and 2003.

29. Financial risk management

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risk during the Relevant Periods. As at 31 December, 2001, 2002 and 2003, cash and bank balances of approximately RMB111,850,000, RMB127,652,000 and RMB147,536,000, respectively, were denominated in Renminbi. The remaining cash and bank balances as at 31 December, 2003 amounting to RMB76,952,000 mainly comprised deposits in United States Dollars. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings, details of which have been disclosed in Note 20 of this section. As at 31 December, 2001, 2002 and 2003, all of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

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

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivables and other receivables; and financial liabilities including trade payables, short term borrowings and other payables, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

30. HK GAAP reconciliation

Except for some presentational differences, there is no material difference between IFRS and accounting principles generally accepted in Hong Kong which might have significant effect on the combined accounts.

III. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December, 2003 and up to the date of this report:

- (a) By a directors' resolution dated 10 May, 2004, the directors of RealSports declared a special dividend to the then shareholders of RealSports amounting to RMB40,000,000.
- (b) The companies now comprising the Group underwent a Reorganisation to rationalise the group structure in preparation for the listing of shares of the Company on The Stock Exchange of Hong Kong Limited, details of which are set out in the section headed "Corporate Reorganisation" in Appendix VI of the Prospectus.

IV. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 31 December, 2003. In addition, except as described in Note 8 of Section II to the combined accounts and note (a) of section III above, no other dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December, 2003.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to illustrate the effect of the Share Offer on (i) the unaudited pro forma adjusted net tangible assets of the Group as if it had taken place on 31 December, 2003 and (ii) the unaudited pro forma fully diluted forecast earnings per Share for the year ending 31 December, 2004 as if it had taken place on 1 January, 2004.

The pro forma financial information has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the earnings per Share and the financial position of the Group following the Share Offer.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December, 2003, as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus and adjusted as follows:

	Audited combined net asset of the Group as at 31 December, 2003 (RMB'000)	Less: Intangible assets (RMB'000)	Estimated net proceeds from the Share Offer (Note 1) (RMB'000)	Unaudited pro forma adjusted net tangible assets (RMB'000)	Unaudited pro forma adjusted net tangible assets per Share (Note 2)
Based on an Offer Price of HK\$1.76 per Share	389,032	(3,775)	409,033	794,290	RMB0.81 (or HK\$0.76)
Based on an Offer Price of HK\$2.23 per Share	389,032	(3,775)	523,704	908,961	RMB0.92 (or HK\$0.87)

Notes:

1. Estimated net proceeds from the Share Offer is based on the Offer Price of HK\$1.76 and HK\$2.23 per Share, respectively, after deducting the underwriting fees and other related expenses payable by the Company.
2. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in this section and on the basis of 986,062,000 Shares in issue after the Share Offer but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

B. UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

Forecast consolidated profit after taxation
and minority interests but before
extraordinary items for the year ending
31 December, 2004 (*Note 1*) not less than RMB122.5 million

Pro forma forecast earnings per Share
– fully diluted (*Note 2*) RMB12.42 cents

Notes:

1. The forecast consolidated profit after taxation and minority interests but before extraordinary items for the year ending 31 December, 2004 is extracted from the section headed “Financial information – Profit forecast” in the prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December, 2004 has been prepared are summarised in Appendix III to the prospectus.

The forecast of the consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31 December, 2004 prepared by the Directors is based on the unaudited management accounts for the three months ended 31 March, 2004 and a forecast of the results of the Group for the remaining nine months ending 31 December, 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December, 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set forth in Appendix I to the prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a full diluted basis is based on the forecast consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31 December, 2004 and a total of 986,062,000 Shares in issue assuming the Share Offer has been completed on 1 January, 2004 but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

C. COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

15 June, 2004

The Directors
Li Ning Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Li Ning Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 192 to 193 under the heading of “Unaudited pro forma adjusted net tangible assets” and “Unaudited pro forma fully diluted forecast earnings per Share” in Appendix II of the Company’s prospectus dated 15 June, 2004 in connection with the placing and public offer of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the placing and public offer might have affected the relevant financial information of the Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 192 to 193 for illustrative purpose only and, because of its nature, it may not be indicative of:

- the financial position of the Group at any future date, or
- the earnings per share of the Group for any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma statement financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2004 is set forth under the section headed “Financial information – Profit forecast for the year ending 31 December, 2004” in this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the consolidated profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2004 on the basis of the unaudited management accounts of the Group for the three months ended 31 March, 2004 and a forecast of the results of the Group for the remaining nine months ending 31 December, 2004.

The Directors are not aware of any extraordinary item which has arisen, nor do they expect that any is likely to arise, in respect of the year ending 31 December, 2004. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus and on the following principal assumptions:

- (a) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, Hong Kong or any of the countries and territories in which the Group carries on its business;
- (b) there will be no material changes in the bases or rates of taxation or duties in the PRC, Hong Kong, or any of the countries and territories in which the Group operates or in which the Group companies are incorporated or registered;
- (c) there will be no material changes in foreign currency exchanges rates, interest rates and inflation rates in the PRC and Hong Kong from those currently prevailing; and
- (d) there will be no material changes in the legislation or regulations in the PRC, Hong Kong or any of the countries and territories in which the Group operates or in which the Group companies are incorporated or registered, which will affect the Group’s business.

(B) LETTERS

Set forth below is the text of the letters received by the Directors from PricewaterhouseCoopers, our auditors and reporting accountants, and from DBS Asia in connection with our profit forecast for the year ending 31 December, 2004.

(i) Letter from PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

15 June, 2004

The Directors
Li Ning Company Limited
DBS Asia Capital Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit after taxation and minority interests of Li Ning Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December, 2004 (the "Profit Forecast") as set forth in the section headed "Financial information – Profit forecast for the year ending 31 December, 2004" in the prospectus of the Company dated 15 June, 2004 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecast" issued by the Hong Kong Society of Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the unaudited results of the Group for the three months ended 31 March, 2004 and a forecast of the results of the Group for the remaining nine months ending 31 December, 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December, 2004.

In our opinion, the Profit Forecast, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set forth in part (A) of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 15 June, 2004, the text of which is set forth in Appendix I of the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(ii) Letter from DBS Asia



15 June, 2004

The Directors
Li Ning Company Limited

Dear Sirs,

We refer to the forecast of the consolidated profit after taxation and minority interests but before extraordinary items of Li Ning Company Limited (the "Company") and its subsidiaries for the financial year ending 31 December, 2004 (the "Forecast") as set forth in the prospectus (the "Prospectus") issued by the Company and dated 15 June, 2004.

We have discussed with you the bases and assumptions, as set forth in part (A) of Appendix III to the Prospectus, upon which the Forecast has been made. We have also considered the letter dated 15 June, 2004 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Forecast has been based.

On the basis of the foregoing, the bases and assumptions adopted by you and the accounting policies and calculations reviewed by PricewaterhouseCoopers, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
DBS Asia Capital Limited
Yip Kwok Kwan
Managing Director

The following is the text of the letter together with the summary of valuations and valuation certificate from Sallmanns (Far East) Limited, an independent property valuer in connection with their opinion of values of our property interests as at 31 May, 2004.

**Sallmanns**

Corporate Valuation and Consultancy
www.sallmanns.com

22/F, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

15 June, 2004

The Board of Directors
Li Ning Company Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Li Ning Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the properties as at 31 May, 2004 (the “date of valuation”).

Our valuation of the property interests is our opinion of the open market value which we would define as intended to mean “an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

In valuing the property interest in Group I, which is held for investment by the Group, we have adopted the Investment Method by taking into account the net present value of the capitalisation of the net income derived from the existing tenancy with due allowance for the reversionary income potential of the tenancy at an appropriate capitalisation rate.

We have valued the property interests in property nos. 2, 3, 4 and 5 in Group II, which are owned by the Group by Direct Comparison Method assuming sale in their existing state with the benefit of vacant possession by reference to comparable sales transactions as available in the relevant market. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowance for variable factors.

Due to a lack of evidence of comparable transactions in the PRC, our valuation for property interests nos. 6 and 7 in Group II is our opinion of their fair market values. Fair market value is defined as the estimated amount at which the subject property in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation of the relevant property as part of an on-going business.

Where, due to the nature of the buildings and structures of the property interests in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for age, condition, economic or functional obsolescence and environmental factors etc; all of which might result in the existing property being worth less to the undertaking in occupation than would a new replacement.” This opinion of value does not necessarily represent the amount that might be realised from the disposal of the subject property in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for property without a known used market.

Based on the open market approach, the property interests in Groups III and IV, which are leased by the Group, have no commercial value due mainly to the short-term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

In valuing the property interests, we have complied with all the requirements contained in Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March, 2000.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, official plans, lease agreements and other property related documents relating to the property interests and have made relevant enquiries. Due to the nature of the land registration system in the PRC, we have not examined the original documents to verify the existing titles to the property interests in the PRC or any material encumbrances that might be attached to the property interests or any lease amendments. We have relied on the advice given by the Company’s PRC legal advisers – King and Wood, concerning the validity of the Group’s titles to the property interests, including the validity of the leasehold interests held by the Group.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Notes:

- (i) Paul L. Brown is a Chartered Surveyor who has 21 years' experience in the valuation of properties in the PRC and 24 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.
- (ii) In respect of the property interests in Group IV, the Company has obtained a waiver from the Stock Exchange from strict compliance with Rule 5.06(1). For full details, please refer to the "Property Interests" subsection under the section "Financial Information".

SUMMARY OF VALUES

GROUP I – PROPERTY INTEREST HELD BY THE GROUP FOR INVESTMENT IN THE PRC

No.	Property	Open market value in existing state as at 31 May, 2004 <i>RMB</i>	Interest attributable to the Group	Open market value attributable to the Group as at 31 May, 2004 <i>RMB</i>
1.	Unit 228 on level 2 of Xidan Saite Shopping Center No. 111 Xidan North Avenue Xicheng District Beijing The PRC	2,075,000	100%	2,075,000
			Sub-total:	<u>2,075,000</u>

GROUP II – PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Open market value in existing state as at 31 May, 2004 <i>RMB</i>	Interest attributable to the Group	Open market value attributable to the Group as at 31 May, 2004 <i>RMB</i>
2.	Rooms 601 to 606 on level 6 and Rooms 804 to 806 on level 8 of Zhaohuige No. 1 Huayuan Road East Foshan City Guangdong Province The PRC	3,664,000	100%	3,664,000
3.	Rooms 202 to 702 on levels 2 to 7 of Block 1 Lane 1 Guibao Liu Street Xinan County Sanshui District Foshan City Guangdong Province The PRC	875,000	80%	700,000

APPENDIX IV**PROPERTY VALUATION**

No.	Property	Open market value in existing state as at 31 May, 2004 RMB	Interest attributable to the Group	Open market value attributable to the Group as at 31 May, 2004 RMB
4.	Room 404 on level 4 of Block 1 Lane 2 of Guibao Si Street Xinan County Sanshui District Foshan City Guangdong Province The PRC	102,000	80%	82,000
5.	Rooms B and C on level 22 of Tower A of Huasheng Square No. 146 Weidi Avenue Hexi District Tianjin The PRC	961,000	100%	961,000
No.	Property	Fair market value in existing state as at 31 May, 2004 RMB	Interest attributable to the Group	Fair market value attributable to the Group as at 31 May, 2004 RMB
6.	A parcel of land and 2 buildings No. 9 Tonghua Dong Yi Road Chancheng District Foshan City Guangdong Province The PRC	35,950,000	80%	28,760,000
7.	A parcel of land and various buildings and structures located at Nanfeng Road Xinan County Sanshui District Foshan City Guangdong Province The PRC	24,232,000	80%	19,386,000
			Sub-total:	<u><u>53,553,000</u></u>

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Open market value in existing state as at 31 May, 2004 RMB
8.	Suites 2804-5 Shell Tower Times Square Hong Kong	No commercial value
9.	Flat A 29th Floor Tower 1 Sky Horizon No. 35 Cloud View Road Hong Kong	No commercial value
		Sub-total: <u> </u> Nil

GROUP IV – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Open market value in existing state as at 31 May, 2004 RMB
10.	30 office properties, 110 retail shops and 21 warehouses in the PRC	No commercial value
		Sub-total: <u> </u> Nil
		Total: <u> </u> 55,628,000

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS HELD BY THE GROUP FOR INVESTMENT IN THE PRC

Property	Description and tenure	Particulars of occupancy	Open market value
			in existing state as at 31 May, 2004 RMB
1. Unit 228 on level 2 of Xidan Saite Shopping Center No. 111 Xidan North Avenue Xicheng District Beijing The PRC	<p>The property comprises a shop unit on the 2nd floor of Xidan Saite Shopping Center, a 12-storey commercial and office building completed in about 1996.</p> <p>The unit has a gross floor area of approximately 74.56 sq.m.</p> <p>The property was granted with land use rights with an apportioned area of approximately 5.28 sq.m. for a term from 16 August, 1999 to 31 May, 2044 for commercial services uses.</p>	The property is currently leased to and occupied by an independent third party as a shop.	2,075,000 100% interest attributable to the Group: 2,075,000

Notes:

- Pursuant to a State-owned Land Use Rights Certificate, Jing Shi Xi Qi Guo Yong (1999 chu) Zi No. 0460026, the land use rights of the property with an apportioned area of approximately 5.28 sq.m. were granted to Beijing Li Ning Sporting Goods Co., Ltd (“Beijing Li Ning”), a wholly owned subsidiary of the Company, for a term from 16 August, 1999 to 31 May, 2044 for commercial services uses.
- Pursuant to a Building Ownership Certificate, Jing Fang Quan Zheng Shi Xi Qi Zi No. 0460026, the property with a gross floor area of approximately 74.56 sq.m. is owned by Beijing Li Ning.
- Pursuant to an Agreement entered into between Beijing Xidan Saite Shopping Center Company Limited (北京西單賽特商城有限公司, “Xidan Saite”) and Beijing Li Ning, the property was entrusted by Beijing Li Ning to Xidan Saite to lease and operate for a term from 1 January, 2002 to 31 December, 2005. For the years of 2002 and 2003, Beijing Li Ning received a turnover rent of RMB92,607 and RMB77,504, respectively, before the deduction of business tax.
- According to an opinion given by the Company’s PRC legal advisers, the property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.

GROUP II – PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Open market value
			in existing state as at 31 May, 2004 RMB
2. Rooms 601 to 606 on level 6 and Rooms 804 to 806 on level 8 of Zhaohuige No. 1 Huayuan Road East Foshan City Guangdong Province The PRC	<p>The property comprises 6 residential units on the 6th floor and 3 residential units on the 8th floor of a 25-storey residential building completed in about 1999.</p> <p>The property has a total gross floor area of approximately 1,017.9 sq.m.</p> <p>The property was granted with land use rights of an apportioned area of approximately 2,775 sq.m. for a term which expires on 8 October, 2063 for residential uses.</p>	The property is currently occupied by the Group as staff quarters.	3,664,000 100% interest attributable to the Group: 3,664,000

Notes:

- Pursuant to 9 Real Estate Ownership Certificates, Yue Fang Di Zheng Zi Di Nos. 03069229 to 3069233 and 3069267 to 3069270, the property with a total gross floor area of approximately 1,017.9 sq.m. and the land use rights with an area of approximately 2,775 sq.m. are owned by Beijing Li Ning Sporting Goods Co., Ltd (“Beijing Li Ning”), a wholly owned subsidiary of the Company.
- Pursuant to 9 Purchase Contracts all dated 28 March, 1999 entered into between Beijing Li Ning and Foshan Huahui Real Estate Company Limited (佛山華輝置業有限公司), the property with an estimated total gross floor area of 1,011.06 sq.m. before the issue of the Real Estate Ownership Certificates was acquired by Beijing Li Ning at a total consideration of RMB3,470,175.
- According to an opinion given by the Company’s PRC legal advisers, the property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.

Property	Description and tenure	Particulars of occupancy	Open market value
			in existing state as at 31 May, 2004 RMB
3. Rooms 202 to 702 on levels 2 to 7 of Block 1 Lane 1 Guibao Liu Street Xinan County Sanshui District Foshan City Guangdong Province The PRC	<p>The property comprises 6 residential units on Levels 2 to 7 of a 7-storey residential building completed in about 1994.</p> <p>The 6 units have a total gross floor area of approximately 901.96 sq.m.</p> <p>The property was granted with land use rights of an apportioned area of approximately 228.8 sq.m. for a term expiring on 5 April, 2074 for residential uses.</p>	The property is currently occupied by the Group as staff quarters.	875,000 80% interest attributable to the Group: 700,000

Notes:

1. Pursuant to a Real Estate Ownership Certificate, Yue Fang Di Zheng Zi No. C2561588, the property with a total gross floor area of approximately 901.96 sq.m. and the land use rights to the property with land use rights of an apportioned area of approximately 228.8 sq.m. are owned by Guangdong Li Ning Sports Development Co., Ltd, an 80% interest owned subsidiary of the Company. The land use rights were granted for a term expiring on 5 April, 2074 for residential uses.
2. According to an opinion given by the Company's PRC legal advisers, the property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.

Property	Description and tenure	Particulars of occupancy	Open market value
			in existing state as at 31 May, 2004 RMB
4. Room 404 on level 4 of Block 1 Lane 2 of Guibao Si Street Xinan County Sanshui District Foshan City Guangdong Province The PRC	<p>The property comprises a residential unit on the 4th floor of a 7-storey residential building and a parking lot completed in about 1994.</p> <p>The unit and the car parking lot have a gross floor area of approximately 104.88 sq.m. and 3.06 sq.m., respectively.</p> <p>The property was granted with land use rights of an apportioned area of approximately 311.9 sq.m. for a term expiring on 5 April, 2074.</p>	The property is currently occupied by the Group for staff quarters and storage purposes.	102,000 80% interest attributable to the Group: 82,000

Notes:

- Pursuant to a Real Estate Ownership Certificate, Yue Fang Di Zheng Zi No. 2561801, the property with a gross floor area of approximately 104.88 sq.m. and the land use rights to the property with land use rights of an apportioned area of approximately 311.9 sq.m. are owned by Guangdong Li Ning Sports Development Co., Ltd, an 80% interest owned subsidiary of the Company. The land use rights were granted for a term expiring on 5 April, 2074 for residential uses.
- Pursuant to a Real Estate Ownership Certificate, Yue Fang Di Zheng Zi No. 2561585, the parking lot with a gross floor area of approximately 3.06 sq.m. and the land use rights to the parking lot are owned by Guangdong Li Ning Sports Development Co., Ltd. The land use rights were granted for a term expiring on 5 April, 2074 for storage purposes.
- According to an opinion given by the Company's PRC legal advisers, the property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.

Property	Description and tenure	Particulars of occupancy	Open market value
			in existing state as at 31 May, 2004 RMB
5. Rooms B and C on level 22 of Tower A of Huasheng Square No. 146 Weidi Avenue Hexi District Tianjin The PRC	<p>The property comprises 2 office units on the 22nd floor of a 27-storey composite building completed in about 1998.</p> <p>The property has a total gross floor area of approximately 234.32 sq.m.</p> <p>The property was granted with land use rights of an apportioned area of approximately 29.6 sq.m. for a term expiring on 4 October, 2045.</p>	The property is currently occupied by the Group for office purposes.	961,000 100% interest attributable to the Group: 961,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Xi Dan Guo Yong (2004) No. 080, the land use rights to the property with land use rights of an apportioned area of approximately 29.6 sq.m. were granted to Tianjin Li Ning Sporting Goods Sales Co., Ltd ("Tianjin Li Ning", now known as Tianjin Edosports Goods Sales Co., Ltd), a wholly owned subsidiary of the Company.
2. Pursuant to a Building Ownership Certificate, Fang Quan Zheng Hexi Zi No. Jin 0030895, the property with a total gross floor area of approximately 234.32 sq.m. is owned by Tianjin Li Ning.
3. Pursuant to a Purchase Contract dated 31 March, 2000 entered into between Tianjin Li Ning and Tianjin Huasheng Real Estate Development Company Limited (天津華盛房地產發展有限公司), the property with a total gross floor of 234.32 sq.m. was acquired by Tianjin Li Ning at a consideration of RMB1,059,754.
4. According to an opinion given by the Company's PRC legal advisers, the property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.

Property	Description and tenure	Particulars of occupancy	Fair market value
			in existing state as at 31 May, 2004 RMB
6. A parcel of land and 2 buildings No. 9 Tonghua Dong Yi Road Chancheng District Foshan City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 6,381 sq.m., on which are constructed two 5-storey composite buildings completed in about 1998.</p> <p>Two composite buildings, namely “Xunlian Lou” and “Shebei Lou” have a gross floor area of approximately 13,229.46 sq.m. and 947.77 sq.m., respectively.</p> <p>The property was granted with land use rights for a term expiring on 16 September, 2048 for physical education and cultural uses.</p>	<p>Level 3 of The Xunlian Building is currently occupied by the Group for office purposes.</p> <p>The remainder of the property is currently occupied by 6 parties subject to the lease agreements and Co-operation Contract as stated in note nos. 3 to 7 below.</p>	<p>35,950,000</p> <p>80% interest attributable to the Group: 28,760,000</p>

Notes:

- Pursuant to 2 Real Estate Ownership Certificates, Yue Fang Di Zheng Zi Nos. C2481214 and C2481213, Shanghai Ning Sheng Corporate Management Co., Ltd (“Shanghai Ning Sheng”), a connected party of the Company, and Li Ning Sports (Shanghai) Co., Ltd (a 100% interest owned subsidiary of the Company, “Shanghai Li Ning”) jointly own the 2 buildings with a total gross floor area of approximately 14,177.23 sq.m. and land use rights to the land with a site area of approximately 6,381 sq.m. The land use rights were granted for a term expiring on 16 September, 2048 for physical education and cultural uses. Shanghai Li Ning and Shanghai Ning Sheng own 80% and 20% interest of the property respectively.
- Pursuant to a State-owned Land Use Rights Certificate, Fo Fu Guo Yong (2003) Di No. 06000622578, the land use rights of the property with an apportioned site area of approximately 5,105 sq.m. (the total site area is 6,381 sq.m.) were granted to Shanghai Li Ning for a term expiring on 16 September, 2048 for physical education and cultural uses.
- Pursuant to a Lease Agreement entered into between Shanghai Li Ning and Shanghai Li Ning Corporate Management Co., Ltd (“Shanghai Li Ning Corporate”, now known as “Shanghai Ning Sheng”) (the “lessor”) and Beijing Li Ning Sporting Goods Co., Ltd (the “lessee”), level 3 of the “Xunlian Lou” with a gross floor area of approximately 2,300 sq.m. is rented to the lessee for a term commencing from 1 January, 2003 to 31 December, 2004 at an annual rental of RMB406,800 exclusive of water, electricity charges, communication and management fees for office uses. Shanghai Li Ning and Shanghai Li Ning Corporate will take 80% and 20% of the rental respectively.
- Pursuant to an Agreement entered into between Shanghai Li Ning Sporting Goods Co., Ltd (now known as “Shanghai Li Ning”), Shanghai Li Ning Corporate and Li Ning Gymnastic School, the “Shebei Lou” and level 1 and a portion of level 2 of the “Xunlian Lou” can be occupied by Li Ning Gymnastic School (operated by the Group) at nil rental for a term from 1 January, 1998 to 31 December, 2017.

5. Pursuant to an agreement entered into between Li Ning Sports (Shanghai) Co., Ltd (“Shanghai Li Ning”) and Shanghai Li Ning Corporate (the “lessor”) and Foshan Lingdong Corporate Management Consultancy Company Limited (佛山市靈動企業管理諮詢有限公司) (the “lessee”), a portion of level 2 of the “Xunlian Lou” with a lease area of approximately 1,050 sq.m. is rented to the lessee for a term commencing from 1 January, 2003 to 30 November, 2006 at a monthly rental of RMB4,650 from 1 January, 2003 to 30 November, 2003, RMB5,650 from 1 December, 2003 to 30 November, 2004, RMB6,650 from 1 December, 2004 to 30 November, 2005 and RMB7,650 from 1 December, 2005 to 30 November, 2006 exclusive of water, electricity charges, communication and management fees for schooling and office uses. Shanghai Li Ning and Shanghai Li Ning Corporate will take 80% and 20% of the rental respectively.
6. Pursuant to a Lease Agreement entered into between Foshan Li Ning Gymnastic School Services Co., Ltd (“Foshan Gymnastic”, a 100% interest owned subsidiary of the Company) (the “lessor”) and Mr. Liu Naichi (the “lessee”), level 4 of the “Xunlian Lou” with a lease area of approximately 2,200 sq.m. is rented to the lessee for a term commencing from 15 August, 2001 to 14 August, 2011 at a monthly rental of RMB6,000 for the first 4 years, RMB8,100 for the fifth year, RMB10,200 for the sixth year, RMB12,300 for the seventh year and RMB14,400 for the last 3 years exclusive of water, electricity charges, communication and management fees for gymnasium uses.
7. Pursuant to a Lease Agreement entered into between Li Ning Sports (Shanghai) Co., Ltd (“Shanghai Li Ning”) and Shanghai Ning Sheng (the “lessor”) and Mr. Yang Guanfeng (the “lessee”), level 5 of the “Xunlian Lou” with a gross floor area of approximately 2,200 sq.m. is rented to the lessee for a term commencing from 23 September, 2003 to 22 September, 2006 at a monthly rental of RMB7,700 exclusive of water, electricity charges, communication and management fees for sports uses. Shanghai Li Ning and Shanghai Ning Sheng will take 80% and 20% of the rental respectively.
8. The “Xunlian Lou” includes a basement with total gross floor area of approximately 2,093.75 sq.m. According to a Co-operation Contract entered into between Shunde City Lecong Hongye Ceramics Plant (順德市樂從宏業陶瓷廠) (“Party A”) and Li Ning Gymnastic School (“Party B”), Party A invested RMB6,300,000 for the basement construction to obtain the use and operation rights of the basement for 50 years. The ownership rights of the basement still belong to Party B. Party A is currently occupying the basement for carparking operation purposes.
9. According to an opinion given by the Company’s PRC legal advisers:
 - i. The land use rights with an apportioned area of 5,105 sq.m. are legally owned by the Group.
 - ii. The Group owns 80% interest in the building ownership rights of the property.
 - iii. The Group has the legal rights to lease the property and sign the agreements and contract stated in note nos. 3, 4, 5, 6, 7 and 8. The agreements are enforceable having been signed.

Property	Description and tenure	Particulars of occupancy	Fair market value
			in existing state as at 31 May, 2004 RMB
7. A parcel of land and various buildings and structures located at Nanfeng Road Xinan County Sanshui District Foshan City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 23,330.27 sq.m., on which are constructed 6 buildings and structures completed in about 1996.</p> <p>The 6 buildings have a total gross floor area of approximately 18,107.36 sq.m.</p> <p>The buildings include an office and production building, 2 dormitory buildings and a canteen building, a reception room and a display room.</p> <p>The structures include 3 steel sheds, 2 garage sheds, walls, roads, ditches and landscaping, etc.</p> <p>The property was granted with the land use rights for a term commencing from 13 December, 1994 and expiring on 12 December, 2044 for production uses.</p>	The property is currently occupied by the Group for production and ancillary office purposes.	24,232,000 80% interest attributable to the Group: 19,386,000

Notes:

1. Pursuant to 8 Real Estate Ownership Certificates, Yue Fang Di Zheng Zi Nos. C2561599, C2561814 to C2561818, C2561583 and C2561589, the 4 buildings with a total gross floor area of approximately 17,812.14 sq.m. and the land use rights to the land with a site area of approximately 23,330.27 sq.m. are owned by Guangdong Li Ning Sports Development Co., Ltd, an 80% interest owned subsidiary of the Company. The land use rights were granted for a term expiring on 12 December, 2044 for production uses.
2. We have attributed no commercial value to a reception room and a display room with a total gross floor area of approximately 295.22 sq.m. without proper building ownership certificates. For reference purposes, we are of the opinion that the value of the building would be in the amount of RMB276,000 providing that their building ownership certificates have been obtained.
3. According to a Tenancy Agreement, a portion of the property with a total lease area of approximately 5,517 sq.m. was leased to Beijing Li Ning Sporting Goods Co., Ltd, a wholly owned subsidiary of the Company, for a term from 1 January, 2004 to 30 September, 2004 at a monthly rental of RMB37,515.60 for storage purposes.
4. According to an opinion given by the Company's PRC legal advisers:
 - i. The property is legally owned by the Group and can be freely occupied, transferred, leased and mortgaged by the Group.
 - ii. The Group has the legal right to lease the property and sign the Tenancy Agreement stated in note no. 3. The agreement is enforceable having been signed.

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 May, 2004 RMB
8. Suites 2804-5 Shell Tower Times Square Hong Kong	<p>The property comprises 2 office units on level 28 of a 39-storey office building completed in about 1993.</p> <p>The 2 units have a total gross floor area of approximately 3,403 sq.ft.</p> <p>According to a Tenancy Agreement dated 14 May, 2004, the property is leased to Li Ning Sports (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company, from an independent third party for a term of 3 years commencing from 1 April, 2004 and expiring on 31 March, 2007 at a monthly rental of HK\$57,851 exclusive of Government Rates, air conditioning, service and management charges.</p>	The property is currently occupied by the Group for office purposes.	No commercial value
9. Flat A 29th Floor Tower 1 Sky Horizon No. 35 Cloud View Road Hong Kong	<p>The property comprises a unit on level 29 of a 40-storey residential building completed in about 2003.</p> <p>The property has a gross floor area of approximately 1,439 sq.ft.</p> <p>According to a Tenancy Agreement dated 16 February, 2004, the property is leased to Li Ning Sports (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company, from an independent third party for a term commencing from 1 March, 2004 and expiring on 30 June, 2005 at a monthly rental of HK\$40,000, inclusive of rates, management fees and Government Rent.</p>	The property is currently occupied by the Group for residential purposes.	No commercial value

GROUP IV – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Open market value										
			in existing state as at 31 May, 2004 RMB										
10. 30 office properties, 110 retail shops and 21 warehouses in the PRC	The property comprises 30 office properties, 110 retail shops and 21 warehouses in various cities in the PRC. Details of the lease areas of the properties are summarized as follows:	The property is currently occupied by the Group for office, retail shop and storage purposes.	No commercial value										
	<table border="1"> <thead> <tr> <th>Use</th> <th>Lease area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td>12,137.14</td> </tr> <tr> <td>Retail shop</td> <td>17,826.95</td> </tr> <tr> <td>Warehouse</td> <td>47,167.80</td> </tr> <tr> <td>Total:</td> <td><u>77,131.89</u></td> </tr> </tbody> </table>	Use	Lease area (sq.m.)	Office	12,137.14	Retail shop	17,826.95	Warehouse	47,167.80	Total:	<u>77,131.89</u>		
Use	Lease area (sq.m.)												
Office	12,137.14												
Retail shop	17,826.95												
Warehouse	47,167.80												
Total:	<u>77,131.89</u>												
	The properties are subject to various lease agreements for terms ranging from one to ten years with the latest expiry date on 20 April, 2013 at a total annual rental of approximately RMB75,389,000.												

Notes:

According to the opinion provided by the Company's PRC legal advisers:

- The Group has leased a total of 161 properties with a total lease area of approximately 77,131.89 sq.m. in the PRC as at 31 May, 2004.
- Of the aforesaid 161 properties as stated in note (1), the lessors of 149 properties with a total gross floor area of 75,625.83 sq.m. have provided to the Group the relevant building ownership certificates or title confirmation letters. Under these title confirmation letters, the relevant lessors confirmed their legal rights to lease the properties to the Group and the lessors undertake to assume all the losses of the Group arising from any defect of their legal right to lease the properties. For those leased properties where the relevant lessors are able to provide the building ownership certificates, the Group is entitled to occupy and use the properties during the lease terms. For those leased properties where the relevant lessors are only able to provide title confirmation letters, the relevant lessors are responsible for all the losses of the Group in case any third parties object to the ownership of the leased properties and/or the legality of the lease agreements.
- For the remaining 12 properties with a total gross floor area of 1,506.06 sq.m., the Group has not been provided with any building ownership certificates or title confirmation letters. There is a risk that the Group may not have the legal right to occupy the properties and/or may incur potential losses accordingly. However, the Group can continue to use and occupy the properties based on the lease agreements as long as there is no objection from any third party as to the building ownership rights or the relevant lease agreements for the properties.

Set forth below is a summary of certain provisions of the memorandum of association of the Company and the Articles and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 February, 2004 under the Companies Law. The memorandum of association (the "Memorandum") and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 5 June, 2004. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from

his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendors, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution – majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to

vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent. in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution

amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 16 March, 2004.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised

to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 26 February, 2004. The Company has established its principal place of business in Hong Kong at Suites 2804-5, Shell Tower, Times Square, Causeway Bay, Hong Kong and has registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 9 June, 2004, and Mr. Li Ning has been appointed as the authorised representative of the Company for the acceptance of service of process in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Cayman Islands laws and to its constitutional documents which comprise a memorandum of association and articles of association. A summary of certain parts of the Company's constitution and relevant aspects of the Cayman Islands company law is set forth in Appendix V to this prospectus.

2. Changes in share capital of the Company

- (a) The authorised share capital of the Company as at the date of its incorporation was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each, of which one share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited ("Codan") on 4 March, 2004.
- (b) On 4 March, 2004, Codan transferred the one nil paid share to Mr. Li Ning and 99 new shares were issued nil paid to Mr. Li Ning.
- (c) On 5 June, 2004, the sole shareholder of the Company resolved to increase the authorised share capital of the Company from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional of 9,996,200,000 Shares.
- (d) On 5 June, 2004, in consideration of the acquisition by the Company of the entire issued share capital of RealSports as to 62,688 shares from China Sports, 12,688 shares from Asia Lead, 19,965 shares from Tetrad and 4,659 shares from CDH, the Company allotted and issued the following number of Shares to the following persons, all credited as fully paid as to:

Allottee	Number of Shares
<i>as directed by China Sports (Note)</i>	
Victory Mind Assets	220,173,900
Champion Link	150,000,000
Double Essence	51,060,000
Alpha Talent	35,250,000
Qin Qian	4,254,000
ABC Assets	3,466,000
Lee Yue Hung, Joseph	5,768,000
Lei Lin	122,000
Li Zhi Qiang	66,000
	470,159,900

Allottee	Number of Shares
<i>as directed by Asia Lead</i>	
Zhang Zhi Yong	3,700,000
Meng Yong Li	2,532,000
Sun Yun Pei	3,116,000
Sun Ming	3,894,000
Fu Xin	780,000
Sun Jian Jun	780,000
Zhang Xiang Du	2,142,000
Li Xiao Shuang	1,558,000
Li Yi Fang	1,558,000
Liang Yong Gen	780,000
Hong Er Guang	1,558,000
Zhao Yu	1,558,000
Fu Lu Ming	13,714,000
Xie Tie Hua	13,714,000
Tang Zi Gang	11,818,000
Zheng Si Hua	1,900,000
Li Chun Yang	2,616,000
Huang Li Ping	550,000
Chen Yi Hong	15,926,000
Liu Pei Ying	2,810,000
ICH	6,988,000
Zhang Jian	1,168,000
	95,160,000
Tetrad	149,737,500
CDH	34,942,500
	749,999,900

In addition, the Company credited as fully paid at par 100 nil paid Shares then held by Mr. Li Ning on 4 March, 2004 which was then transferred to Victory Mind Assets.

Note: Prior to the completion of the acquisition by the Company of the entire issued share capital of RealSports, Ms. Chen Yong Yan, the wife of Mr. Li Ning, and Ms. Dang Liu Ning, the wife of Mr. Li Chun, assigned their respective beneficial interests in China Sports to Mr. Li Ning and Mr. Li Chun absolutely to the intent that their respective beneficial interests in China Sports should not be transferred and held under Champion Link. After completion of the respective assignments, Ms. Chen Yong Yan and Ms. Dang Liu Ning no longer had any beneficial interests in China Sports.

- (e) Assuming that the Share Offer becomes unconditional, but taking no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK\$1,000,000,000 divided into 10,000,000,000 Shares and the issued share capital of the Company will be HK\$98,606,200 divided into 986,062,000 Shares, all fully paid or credited as fully paid, with 9,013,938,000 Shares remaining unissued. Other than pursuant to the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the

Share Option Scheme, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid and as mentioned in the paragraph headed “Written resolutions of the sole Shareholder passed on 5 June, 2004” below, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of the sole Shareholder passed on 5 June, 2004

Pursuant to the written resolutions of the sole Shareholder passed on 5 June, 2004:

- (a) the Company approved and adopted its existing Articles;
- (b) the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 Shares to rank *pari passu* with the existing Shares in all respects;
- (c) the acquisition by the Company of the entire issued share capital of RealSports was approved and in consideration of the acquisition, the Directors were authorised to:
 - (A) allot and issue an aggregate of 749,999,900 Shares, all credited as fully paid, as to
 - (i) 149,737,500 Shares to Tetrad;
 - (ii) 34,942,500 Shares to CDH;
 - (iii) 470,159,900 Shares to the beneficial owners of China Sports (or their nominees) (details of the Shares allotted and issued are set forth in item (d) of paragraph 2 headed “Changes in share capital of the Company” in this Appendix); and
 - (iv) 95,160,000 Shares to the beneficial owners of Asia Lead (details of the Shares allotted and issued are set forth in item (d) of paragraph 2 headed “Changes in share capital of the Company” in this Appendix);
 - (B) credited as fully paid at par by the Company 100 nil paid Shares held by Mr. Li Ning;

- (d) conditional on the same conditions as stated in the subsection headed “Conditions of the Share Offer” in the section headed “Structure and Conditions of the Share Offer” herein:
- (i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares and the Shares which may fall to be issued if the Over-allotment Option is exercised;
 - (ii) the rules of the Pre-IPO Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme;
 - (iii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme; and
- (e) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with (otherwise than by way of rights, issues, scrip dividend or an issue of shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or other similar arrangements) Shares with an aggregate nominal value not exceeding the sum of:
- (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
 - (ii) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph 6 below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is the earlier; and
- (f) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of

the Over-allotment Option), until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is the earlier.

4. Corporate reorganisation

The subsidiaries of the Company underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. Following the Reorganisation, the Company became the holding company. The Reorganisation involved the following:

Incorporation of the Company

- (a) The Company was incorporated on 26 February, 2004.
- (b) On 4 March, 2004, one Share was allotted and issued nil paid to Codan and was transferred to Mr. Li Ning on the same date.

Incorporation of subsidiary companies

- (a) On 8 October, 2002, RealSports was incorporated in the BVI with limited liability with an authorised capital of US\$50,000 divided into 5,000,000 shares of US\$1 each, which was subsequently changed to US\$0.01 each on 22 October, 2002.
- (b) On 5 March, 2003 Shanghai Yue Ao was established as a limited liability company in Shanghai with a registered capital of RMB3 million to be contributed as to 20% by Shanghai Edosports and 80% by Shanghai Shao Hao.

Reorganisation of the operating companies

- (a) On 8 October, 2002, RealSports was incorporated in the BVI with limited liability with an authorised capital of US\$50,000 divided into 5,000,000 Shares of US\$1 each, which was subsequently changed to US\$0.01 each on 22 October, 2002.
- (b) On 28 October, 2002, 62,688 shares and 12,688 shares in RealSports were allotted and issued by RealSports to China Sports and Asia Lead, respectively
- (c) On 29 October, 2002, pursuant to the agreement referred to in item (a) of the paragraph headed “Summary of material contracts” in this Appendix, RealSports acquired from 上海李寧企業管理有限公司 (Shanghai Li Ning Enterprises Management Ltd.), 上海力發體育用品有限公司 (Shanghai Li Fa Sports Goods Co., Ltd.), 上海滙朋體育用品有限公司 (Shanghai Hui Peng Sporting Goods Co., Ltd.), 天津市華寶威體育用品發展有限公司 (Tianjin Hua Bao Wei Sporting Goods Development Co., Ltd.), 天津市龍華體育用品有限公司 (Tianjin Long Hua Sporting Goods Co., Ltd.), and 上海進滙商貿有限公司 (Shanghai Jin Hui Commerce and Trade Co., Ltd.), the then equity holders of Shanghai Li Ning, their entire equity interests in Shanghai Li Ning for a total consideration of US\$6 million.

- (d) On 7 January, 2003, pursuant to the agreement referred to in item (b) of the paragraph headed “Summary of material contracts” in this Appendix, and in consideration of US\$15 million and US\$3.5 million paid by Tetrad and CDH, RealSports allotted and issued 19,965 and 4,659 Shares to Tetrad and CDH, respectively. Upon completion of the subscription, the issued share capital of RealSports was held as to 62,688 (62.688%) shares by China Sports, 12,688 (12.688%) shares by Asia Lead, 19,965 (19.965%) shares by Tetrad and 4,659 (4.659%) shares by CDH.
- (e) On 5 June, 2004, pursuant to the agreement referred to in item (k) of the paragraph headed “Summary of material contracts” to this Appendix, the Company acquired the entire issued share capital of RealSports as to 62,688 shares from China Sports, 12,688 shares from Asia Lead, 19,965 shares from Tetrad and 4,659 shares from CDH in consideration of which the Company (i) allotted and issued 470,159,900 Shares to the beneficial owners of China Sports or their nominees (whose particulars are set forth in paragraph A2(d) of this Appendix), 95,160,000 Shares to the beneficial owners of Asia Lead (whose particulars are set forth in paragraph A2(d) of this Appendix), 149,737,500 Shares to Tetrad and 34,942,500 Shares to CDH, respectively, all credited as fully paid; and (ii) credited as fully paid at par the 100 nil paid Shares which were held by Mr. Li Ning.

5. Changes in share capital of subsidiaries

The Company’s subsidiaries are referred to in the accountants’ report, the text of which is set forth in Appendix I to this prospectus.

Save as mentioned hereunder and in the paragraph headed “Corporate reorganisation” in this appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus:

(a) *Shanghai Li Ning*

On 29 October, 2002, 上海李寧企業管理有限公司 (Shanghai Li Ning Enterprises Management Ltd.), 上海力發體育用品有限公司 (Shanghai Li Fa Sports Goods Co., Ltd.), 上海滙朋體育用品有限公司 (Shanghai Hui Peng Sporting Goods Co., Ltd.), 天津市華寶威體育用品發展有限公司 (Tianjin Hua Bao Wei Sporting Goods Development Co., Ltd.), 天津市龍華體育用品有限公司 (Tianjin Long Hua Sporting Goods Co., Ltd.), and 上海進滙商貿有限公司 (Shanghai Jin Hui Commerce and Trade Co., Ltd.), the then equity holders of Shanghai Li Ning, transferred their entire equity interests, being 64.927%, 4.740%, 5.175%, 3.535%, 3.184% and 18.439% in Shanghai Li Ning to RealSports for an aggregate consideration of US\$6 million. Upon completion of the transfer, Shanghai Li Ning was converted from a domestic enterprise into and was established as a wholly-foreign-owned enterprise on 11 December, 2002.

(b) *Beijing Li Ning*

On 19 December, 2003, Shanghai Li Ning entered into an agreement with Shanghai Yue Ao whereby the 80% equity interest held by Shanghai Li Ning in Beijing Li Ning was transferred to Shanghai Yue Ao for RMB40 million.

(c) *Shanghai Edosports*

On 19 December, 2003, Shanghai Li Ning entered into an agreement with Shanghai Shao Hao Sports whereby the 80% equity interest held by Shanghai Li Ning in Shanghai Edosports was transferred to Shanghai Shao Hao Sports for RMB8 million.

(d) *Shanghai Shao Hao Sports*

On 19 December, 2003, Shanghai Li Ning entered into an agreement with Shanghai Hu Bu whereby the 80% equity interest held by Shanghai Li Ning in Shanghai Shao Hao Sports was transferred to Shanghai Hu Bu for RMB2.4 million.

(e) *Beijing Dong Xiang*

On 19 December, 2003, Shanghai Li Ning entered into an agreement with Shanghai Yue Ao whereby the 80% equity interest held by Shanghai Li Ning in Beijing Dong Xiang was transferred to Shanghai Yue Ao for RMB640,000.

(f) *Foshan Gymnastics*

On 19 March, 2004, Beijing Li Ning entered into an agreement with Shanghai Shao Hao Sports whereby the 20% equity interest held by Beijing Li Ning in Foshan Gymnastics was transferred to Shanghai Shao Hao Sports for RMB200,000.

(g) *Shanghai Edosports*

On 18 March, 2004, Beijing Li Ning entered into an agreement with Foshan Gymnastics whereby the 20% equity interest held by Beijing Li Ning in Shanghai Edosports was transferred to Foshan Gymnastics for a consideration of RMB2 million.

6. Repurchase by the Company of its own securities

(a) *Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their equity securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. The Company's sole listing will be on the Stock Exchange.

(Note: Pursuant to a resolution in writing passed by the sole shareholder of the Company on 5 June, 2004, a general unconditional mandate (“Repurchase Mandate”) was given to the Directors authorising any repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, Shares of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) such mandate to expire on the earlier of (a) the conclusion of the next annual general meeting of the Company; (b) the date by which the annual general meeting of the Company is required by the Articles or applicable laws of Cayman Islands to be held; or (c) when revoked or varied by an ordinary resolution of the shareholders in a general meeting of the Company.)

(ii) Source of funds

Repurchases must be funded out of funds legally available for such purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase by the Company may be made out of funds legally permitted to be utilized in this connection, including profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be purchased must be paid out of profits of the Company or out of the Company’s share premium account, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by a company must be fully paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

(d) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of 986,062,000 Shares in issue immediately after completion of the Share Offer (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) and on the basis of 1,023,038,000 Shares in issue immediately after completion of the Share Offer (taking no account of any Shares which may be issued upon the exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme but assuming exercise of the Over-allotment Option in full) could accordingly result in up to 98,606,200 Shares and 102,303,800 Shares respectively being repurchased by the Company during the course of the period prior to the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or
- (iii) the revocation or variation by an ordinary resolution of the Shareholders in a general meeting.

(e) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position to be disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors may from time to time be appropriate for the Company.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified the Company that he/she has a present intention to sell Shares to the Company, or has undertaken not to do so.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. The Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) equity transfer agreement dated 29 October, 2002 between 上海李寧企業管理有限公司(Shanghai Li Ning Enterprises Management Ltd.), 上海力發體育用品有限公司(Shanghai Li Fa Sports Goods Co., Ltd.), 上海滙朋體育用品有限公司(Shanghai Hui Peng Sporting Goods Co., Ltd.), 天津市華寶威體育用品發展有限公司(Tianjin Hua Bao Wei Sporting Goods Development Co., Ltd.), 天津市龍華體育用品有限公司(Tianjin Long Hua Sporting Goods Co., Ltd.), 上海進滙商貿有限公司(Shanghai Jin Hui Commerce and Trade Co., Ltd.) and RealSports for the transfer of the respective equity interests in Shanghai Li Ning held by 上海李寧企業管理有限公司 (Shanghai Li Ning Enterprises Management Ltd.) (64.927%), 上海力發體育用品有限公司 (Shanghai Li Fa Sports Goods Co., Ltd.) (4.740%), 上海滙朋體育用品有限公司 (Shanghai Hui Peng Sporting Goods Co., Ltd.) (5.175%), 天津市華寶威體育用品發展有限公司 (Tianjin Hua Bao Wei Sporting Goods Development Co., Ltd.) (3.535%), 天津市龍華體育用品有限公司 (Tianjin Long Hua Sporting Goods Co., Ltd.) (3.184%), and 上海進滙商貿有限公司 (Shanghai Jin Hui Commerce and Trade Co., Ltd.) (18.439%), to RealSports for a total consideration of US\$6 million;
- (b) subscription agreement dated 7 January, 2003 between Tetrad, CDH, China Sports, Asia Lead, the Existing Shangti Shareholders (as defined therein) and RealSports for the subscription of 19,965 shares and 4,659 shares respectively by Tetrad and CDH in RealSports for US\$15 million and US\$3.5 million, respectively;
- (c) trademark licence agreement dated 24 January, 2003 between Shanghai Li Ning Enterprises Management Ltd. as the licensor and Shanghai Li Ning as the licensee with certain rights to RealSports, Tetrad and CDH relating to the use of certain LI NING trademarks for nil consideration;
- (d) equity transfer agreement dated 19 December, 2003 between Shanghai Li Ning and Shanghai Yue Ao for the transfer of the 80% equity interest held by Shanghai Li Ning in Beijing Li Ning to Shanghai Yue Ao for a consideration of RMB40 million;
- (e) equity transfer agreement dated 19 December, 2003 between Shanghai Li Ning and Shanghai Yue Ao for the transfer of the 80% equity interest held by Shanghai Li Ning in Beijing Dong Xiang to Shanghai Yue Ao for a consideration of RMB640,000;
- (f) equity transfer agreement dated 19 December, 2003 between Shanghai Li Ning and Shanghai Shao Hao Sports for the transfer of the 80% equity interest held by Shanghai Li Ning in Shanghai Edosports to Shanghai Shao Hao Sports for a consideration of RMB8 million;
- (g) equity transfer agreement dated 19 December, 2003 between Shanghai Li Ning and Shanghai Hu Bu for the transfer of the 80% equity interest held by Shanghai Li Ning in Shanghai Shao Hao to Shanghai Hu Bu for a consideration of RMB2.4 million;




- (h) sports event organising agreement dated 1 January, 2004 between Beijing Li Ning and Beijing Edo Sports for the appointment of Beijing Edo Sports as an organiser of sports events and promotional activities for Beijing Li Ning for the annual fees described in the subsection headed “Non-exempt connected transactions” in the “Connected transactions” section of this prospectus;
- (i) equity transfer agreement dated 18 March, 2004 between Beijing Li Ning and Foshan Gymnastics for the transfer of the 20% equity interest held by Beijing Li Ning in Shanghai Edosports to Foshan Gymnastics for a consideration of RMB2.0 million;
- (j) equity transfer agreement dated 19 March, 2004 between Beijing Li Ning and Shanghai Shao Hao Sports for the transfer of the 20% equity interest held by Beijing Li Ning in Foshan Gymnastics to Shanghai Shao Hao Sports for RMB200,000;
- (k) acquisition agreement dated 5 June, 2004 between the Company, China Sports, Asia Lead, Tetrad and CDH pursuant to which the Company acquired the entire issued capital of RealSports as to 62,688 shares from China Sports, 12,688 shares from Asia Lead, 19,965 shares from Tetrad and 4,659 shares from CDH in consideration of an allotment and issue of 470,159,900 Shares to the beneficial owners of China Sports, 95,160,000 Shares to the beneficial owners of Asia Lead, 149,737,500 Shares to Tetrad and 34,942,500 Shares to CDH credited as fully paid and crediting as fully paid at par the 100 Shares allotted and issued nil paid to Mr. Li Ning on 4 March, 2004;
- (l) non-exclusive distributorship framework agreement dated 1 January, 2004 between Beijing Dong Xiang and Dong Gan Jiu Liu for the non-exclusive distribution of KAPPA branded products for a term of three years commencing from 1 January, 2004 at a certain percentage of the recommended retail price for the relevant product more particularly described in the “Connection transactions” section of this prospectus;
- (m) deed of indemnity dated 14 June, 2004 between Victory Mind Assets, Champion Link, Mr. Li Ning and Mr. Li Chun in favour of the Company and its subsidiaries in respect of tax liabilities referred to in the subsection headed “Indemnity” in the section headed “Other information” in this appendix; and
- (n) Underwriting Agreement.

2. Intellectual property rights

As at the Latest Practicable Date, the following intellectual property rights are material to our business:

(a) Trademarks

As at the Last Practicable Date, we have registered or are the proprietor of the following trade or service marks:

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
Asia				
	PRC	1 (Note 1)	3065782	From 14 May, 2003 to 13 May, 2013
	PRC	2 (Note 2)	3065781	From 14 November, 2003 to 13 November, 2013
	PRC	3 (Note 3)	663075	From 28 October, 1993 to 27 October, 2013

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
 LI-NING	PRC	4 (Note 4)	3065780	From 14 June, 2003 to 13 June, 2013
 LI-NING	PRC	5 (Note 5)	3065779	From 14 June, 2003 to 13 June, 2013
 LI-NING	PRC	6 (Note 6)	3065778	From 28 March, 2003 to 27 March, 2013
 LI-NING	PRC	7 (Note 7)	3065777	From 28 June, 2003 to 27 June, 2013
 LI-NING	PRC	8 (Note 8)	3065776	From 7 March, 2003 to 6 March, 2013
 LI-NING	PRC	9 (Note 9)	658567	From 21 September, 1993 to 20 September, 2013
 LI-NING	PRC	12 (Note 12)	3065773	From 7 March, 2003 to 6 March, 2013
 LI-NING	PRC	13 (Note 13)	3065772	From 21 March, 2003 to 20 March, 2013
 LI-NING	PRC	14 (Note 14)	657659	From 14 September, 1993 to 13 September, 2013
 LI-NING	PRC	15 (Note 15)	3065771	From 14 April, 2003 to 13 April, 2013
 LI-NING	PRC	16 (Note 16)	3065770	From 21 August, 2003 to 20 August, 2013
 LI-NING	PRC	17 (Note 17)	3065769	From 14 May, 2003 to 13 May, 2013
 LI-NING	PRC	18 (Note 18)	535717	From 30 November, 2000 to 29 November, 2010
 LI-NING	PRC	19 (Note 19)	3065768	From 28 March, 2003 to 27 March, 2013
 LI-NING	PRC	20 (Note 20)	3065767	From 21 May, 2003 to 20 May, 2013
 LI-NING	PRC	21 (Note 21)	3065766	From 28 April, 2003 to 27 April, 2013
 LI-NING	PRC	22 (Note 22)	3065765	From 14 April, 2003 to 13 April, 2013
 LI-NING	PRC	23 (Note 23)	3065764	From 7 April, 2003 to 6 April, 2013
 LI-NING	PRC	24 (Note 24)	535925	From 30 November, 2000 to 29 November, 2010

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	25 (Note 25)	536725	From 10 December, 2000 to 9 December, 2010
	PRC	26 (Note 26)	535756	From 30 November, 2000 to 29 November, 2010
	PRC	27 (Note 27)	3065763	From 21 May, 2003 to 20 May, 2013
	PRC	28 (Note 28)	1126841	From 14 November, 1997 to 13 November, 2007
	PRC	29 (Note 29)	3065762	From 7 March, 2003 to 6 March, 2013
	PRC	31 (Note 31)	3065760	From 28 December, 2002 to 27 December, 2012
	PRC	33 (Note 33)	3065758	From 7 March, 2003 to 6 March, 2013
	PRC	34 (Note 34)	3065757	From 7 March, 2003 to 6 March, 2013
	PRC	35 (Note 35)	3065756	From 14 May, 2003 to 13 May, 2013
	PRC	36 (Note 36)	3065755	From 21 May, 2003 to 20 May, 2013
	PRC	37 (Note 37)	3065754	From 21 May, 2003 to 20 May, 2013
	PRC	38 (Note 38)	3065753	From 7 May, 2003 to 6 May, 2013
	PRC	39 (Note 39)	3065752	From 7 May, 2003 to 6 May, 2013
	PRC	40 (Note 40)	755048	From 7 July, 1995 to 6 July, 2005
	PRC	40 (Note 40)	3065751	From 14 May, 2003 to 13 May, 2013
	PRC	41 (Note 41)	755089	From 7 July, 1995 to 6 July, 2005
	PRC	41 (Note 41)	3065750	From 28 April, 2003 to 27 April 2013
	PRC	42 (Note 42)	1779983	From 28 May, 2002 to 27 May, 2012
<u>LI-NING</u>	PRC	1 (Note 1)	3065848	From 14 May, 2003 to 13 May, 2013

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
<u>LI-NING</u>	PRC	2 (Note 2)	3065847	From 14 April, 2003 to 13 April, 2013
<u>LI-NING</u>	PRC	3 (Note 3)	663079	From 28 October, 1993 to 27 October, 2013
<u>LI-NING</u>	PRC	4 (Note 4)	3065846	From 14 June, 2003 to 13 June, 2013
<u>LI-NING</u>	PRC	5 (Note 5)	3065845	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	6 (Note 6)	3065844	From 28 March, 2003 to 27 March, 2013
<u>LI-NING</u>	PRC	7 (Note 7)	3065843	From 28 June, 2003 to 27 June, 2013
<u>LI-NING</u>	PRC	8 (Note 8)	3065842	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	9 (Note 9)	658561	From 21 September, 1993 to 20 September, 2013
<u>LI-NING</u>	PRC	11 (Note 11)	3065840	From 7 June, 2003 to 6 June, 2013
<u>LI-NING</u>	PRC	12 (Note 12)	3065839	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	13 (Note 13)	3065838	From 21 March, 2003 to 20 March, 2013
<u>LI-NING</u>	PRC	14 (Note 14)	657658	From 14 September, 1993 to 13 September, 2013
<u>LI-NING</u>	PRC	15 (Note 15)	3065837	From 14 April, 2003 to 13 April, 2013
<u>LI-NING</u>	PRC	16 (Note 16)	3065836	From 21 August, 2003 to 20 August, 2013
<u>LI-NING</u>	PRC	17 (Note 17)	3065835	From 14 May, 2003 to 13 May, 2013
<u>LI-NING</u>	PRC	18 (Note 18)	535713	From 30 November, 2000 to 29 November, 2010
<u>LI-NING</u>	PRC	19 (Note 19)	3065834	From 28 March, 2003 to 27 March, 2013
<u>LI-NING</u>	PRC	20 (Note 20)	3065833	From 14 April, 2003 to 13 April, 2013
<u>LI-NING</u>	PRC	21 (Note 21)	3065832	From 21 April, 2003 to 20 April, 2013










Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
<u>LI-NING</u>	PRC	22 (Note 22)	3065831	From 28 March, 2003 to 27 March, 2013
<u>LI-NING</u>	PRC	23 (Note 23)	3065830	From 28 March, 2003 to 27 March, 2013
<u>LI-NING</u>	PRC	24 (Note 24)	535923	From 30 November, 2000 to 29 November, 2010
<u>LI-NING</u>	PRC	25 (Note 25)	536724	From 10 December, 2000 to 9 December, 2010
<u>LI-NING</u>	PRC	26 (Note 26)	535758	From 30 November, 2000 to 29 November, 2010
<u>LI-NING</u>	PRC	27 (Note 27)	3065829	From 21 May, 2003 to 20 May, 2013
<u>LI-NING</u>	PRC	28 (Note 28)	1126844	From 14 November, 1997 to 13 November, 2007
<u>LI-NING</u>	PRC	29 (Note 29)	3065828	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	30 (Note 30)	3065827	From 21 March, 2003 to 20 March 2013
<u>LI-NING</u>	PRC	31 (Note 31)	3065826	From 28 December, 2002 to 27 December, 2012
<u>LI-NING</u>	PRC	32 (Note 32)	3065825	From 21 March, 2003 to 20 March 2013
<u>LI-NING</u>	PRC	33 (Note 33)	3065824	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	34 (Note 34)	3065823	From 7 March, 2003 to 6 March, 2013
<u>LI-NING</u>	PRC	35 (Note 35)	3065822	From 14 May, 2003 to 13 May, 2013
<u>LI-NING</u>	PRC	36 (Note 36)	3065821	From 21 May, 2003 to 20 May, 2013
<u>LI-NING</u>	PRC	37 (Note 37)	3065820	From 21 May, 2003 to 20 May, 2013
<u>LI-NING</u>	PRC	38 (Note 38)	3065819	From 7 May, 2003 to 6 May, 2013
<u>LI-NING</u>	PRC	39 (Note 39)	3065818	From 7 May, 2003 to 6 May, 2013
<u>LI-NING</u>	PRC	42 (Note 42)	1779985	From 28 May, 2002 to 27 May, 2012

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	1 (<i>Note 1</i>)	3065749	From 14 May, 2003 to 13 May, 2013
	PRC	2 (<i>Note 2</i>)	3065748	From 14 November, 2003 to 13 November, 2013
	PRC	3 (<i>Note 3</i>)	873751	From 7 July, 1995 to 6 July, 2005
	PRC	4 (<i>Note 4</i>)	3065745	From 14 June, 2003 to 13 June, 2013
	PRC	5 (<i>Note 5</i>)	3065747	From 28 January, 2004 to 27 January, 2014
	PRC	6 (<i>Note 6</i>)	3065746	From 28 March, 2003 to 27 March, 2013
	PRC	7 (<i>Note 7</i>)	3065743	From 21 June, 2003 to 20 June, 2013
	PRC	8 (<i>Note 8</i>)	3065744	From 7 March, 2003 to 6 March, 2013
	PRC	12 (<i>Note 12</i>)	3065740	From 7 March, 2003 to 6 March, 2013
	PRC	13 (<i>Note 13</i>)	3065739	From 21 March, 2003 to 20 March, 2013
	PRC	14 (<i>Note 14</i>)	833759	From 21 April, 1996 to 20 April, 2006
	PRC	15 (<i>Note 15</i>)	3065738	From 28 August, 2003 to 27 August, 2013
	PRC	16 (<i>Note 16</i>)	3065737	From 21 August, 2003 to 20 August, 2013
	PRC	17 (<i>Note 17</i>)	3065736	From 14 May, 2003 to 13 May, 2013
	PRC	18 (<i>Note 18</i>)	535719	From 30 November, 2000 to 29 November, 2010
	PRC	19 (<i>Note 19</i>)	3065735	From 28 March, 2003 to 27 March, 2013
	PRC	20 (<i>Note 20</i>)	3065734	From 21 May, 2003 to 20 May, 2013
	PRC	21 (<i>Note 21</i>)	3065733	From 28 April, 2003 to 27 April, 2013
	PRC	22 (<i>Note 22</i>)	3065732	From 14 April, 2003 to 13 April, 2013
	PRC	23 (<i>Note 23</i>)	3065731	From 7 April, 2003 to 6 April, 2013













Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	24 (<i>Note 24</i>)	535924	From 30 November, 2000 to 29 November, 2010
	PRC	25 (<i>Note 25</i>)	536726	From 10 December, 2000 to 9 December, 2010
	PRC	26 (<i>Note 26</i>)	535757	From 30 November, 2000 to 29 November, 2010
	PRC	27 (<i>Note 27</i>)	3065730	From 21 May, 2003 to 20 May, 2013
	PRC	28 (<i>Note 28</i>)	1126843	From 14 November, 1997 to 13 November, 2007
	PRC	29 (<i>Note 29</i>)	3065729	From 7 March, 2003 to 6 March, 2013
	PRC	31 (<i>Note 31</i>)	3065727	From 28 December, 2002 to 27 December, 2012
	PRC	33 (<i>Note 33</i>)	3065725	From 7 March, 2003 to 6 March, 2013
	PRC	34 (<i>Note 34</i>)	3065724	From 7 March, 2003 to 6 March, 2013
	PRC	35 (<i>Note 35</i>)	3065723	From 14 May, 2003 to 13 May, 2013
	PRC	36 (<i>Note 36</i>)	3065722	From 21 May, 2003 to 20 May, 2013
	PRC	37 (<i>Note 37</i>)	3065721	From 21 May, 2003 to 20 May, 2013
	PRC	38 (<i>Note 38</i>)	3065720	From 7 May, 2003 to 6 May, 2013
	PRC	39 (<i>Note 39</i>)	3065719	From 7 May, 2003 to 6 May, 2013
	PRC	40 (<i>Note 40</i>)	3065718	From 14 May, 2003 to 13 May, 2013
	PRC	41 (<i>Note 41</i>)	3065717	From 28 April, 2003 to 27 April, 2013
	PRC	42 (<i>Note 42</i>)	1779984	From 28 May, 2002 to 27 May, 2012
李宁	PRC	1 (<i>Note 1</i>)	3065814	From 14 May, 2003 to 13 May, 2013
李宁	PRC	2 (<i>Note 2</i>)	3065815	From 14 April, 2003 to 13 April, 2013

















Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
李宁	PRC	4 (<i>Note 4</i>)	3065813	From 14 June, 2003 to 13 June, 2013
李宁	PRC	5 (<i>Note 5</i>)	3065812	From 7 March, 2003 to 6 March, 2013
李宁	PRC	6 (<i>Note 6</i>)	3065811	From 28 March, 2003 to 27 March, 2013
李宁	PRC	7 (<i>Note 7</i>)	3065810	From 21 June, 2003 to 20 June, 2013
李宁	PRC	8 (<i>Note 8</i>)	3065809	From 7 March, 2003 to 6 March, 2013
李宁	PRC	11 (<i>Note 11</i>)	3065807	From 7 June, 2003 to 6 June, 2013
李宁	PRC	12 (<i>Note 12</i>)	3065806	From 7 March, 2003 to 6 March, 2013
李宁	PRC	13 (<i>Note 13</i>)	3065805	From 21 March, 2003 to 20 March, 2013
李宁	PRC	15 (<i>Note 15</i>)	3065804	From 14 April, 2003 to 13 April, 2013
李宁	PRC	16 (<i>Note 16</i>)	3065803	From 14 April, 2003 to 13 April, 2013
李宁	PRC	17 (<i>Note 17</i>)	3065802	From 14 May, 2003 to 13 May, 2013
李宁	PRC	19 (<i>Note 19</i>)	3065800	From 28 March, 2003 to 27 March, 2013
李宁	PRC	20 (<i>Note 20</i>)	3065801	From 14 April, 2003 to 13 April, 2013
李宁	PRC	21 (<i>Note 21</i>)	3065799	From 21 April, 2003 to 20 April, 2013
李宁	PRC	22 (<i>Note 22</i>)	3065798	From 28 March, 2003 to 27 March, 2013
李宁	PRC	23 (<i>Note 23</i>)	3065797	From 28 March, 2003 to 27 March, 2013
李宁	PRC	27 (<i>Note 27</i>)	3065796	From 21 May, 2003 to 20 May, 2013
李宁	PRC	28 (<i>Note 28</i>)	1350690	From 7 January, 2000 to 6 January, 2010
李宁	PRC	29 (<i>Note 29</i>)	3065795	From 7 March, 2003 to 6 March, 2013

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
李宁	PRC	30 (Note 30)	3065794	From 21 March, 2003 to 20 March, 2013
李宁	PRC	31 (Note 31)	3065793	From 28 December, 2002 to 27 December, 2012
李宁	PRC	32 (Note 32)	3065792	From 21 March, 2003 to 20 March, 2013
李宁	PRC	33 (Note 33)	3065791	From 7 March, 2003 to 6 March, 2013
李宁	PRC	34 (Note 34)	3065790	From 7 March, 2003 to 6 March, 2013
李宁	PRC	36 (Note 36)	3065788	From 21 May, 2003 to 20 May, 2013
李宁	PRC	37 (Note 37)	3065787	From 21 May, 2003 to 20 May, 2013
李宁	PRC	38 (Note 38)	3065786	From 7 May, 2003 to 6 May, 2013
李宁	PRC	39 (Note 39)	3065785	From 7 May, 2003 to 6 May, 2013
李宁	PRC	40 (Note 40)	3065784	From 14 May, 2003 to 13 May, 2013
李宁	PRC	41 (Note 41)	3065783	From 28 April, 2003 to 27 April, 2013
李宁牌	PRC	42 (Note 42)	1794904	From 21 June, 2002 to 20 June, 2012
李寧	PRC	3 (Note 3)	661274	From 14 October, 1993 to 13 October, 2013
李寧	PRC	9 (Note 9)	658560	From 21 September, 1993 to 20 September, 2013
李寧	PRC	14 (Note 14)	657657	From 14 September, 1993 to 13 September, 2013
李寧牌	PRC	18 (Note 18)	535718	From 30 November, 2000 to 29 November, 2010
李寧牌	PRC	24 (Note 24)	535922	From 30 November, 2000 to 29 November, 2010
李寧牌	PRC	25 (Note 25)	536723	From 10 December, 2000 to 9 December, 2010
李寧牌	PRC	26 (Note 26)	535755	From 30 November, 2000 to 29 November, 2010





Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
李寧	PRC	28 (Note 28)	1126842	From 14 November, 1997 to 13 November, 2007
李寧牌	PRC	42 (Note 42)	1794903	From 21 June, 2002 to 20 June, 2012
LI NING	PRC	14 (Note 14)	1126270	From 14 November, 1997 to 13 November, 2007
LI NING	PRC	25 (Note 25)	525505	From 30 July, 2000 to 29 July, 2010
LI NING	PRC	28 (Note 28)	524617	From 20 July, 2000 to 19 July, 2010
 LI-NING GOLF	PRC	3 (Note 3)	3075810	From 14 May, 2003 to 13 May, 2013
 LI-NING GOLF	PRC	9 (Note 9)	3075809	From 7 May, 2003 to 6 May, 2013
 LI-NING GOLF	PRC	16 (Note 16)	3075808	From 21 May, 2003 to 20 May, 2013
 LI-NING GOLF	PRC	22 (Note 22)	3075806	From 14 April, 2003 to 13 April, 2013
 LI-NING GOLF	PRC	24 (Note 24)	3075805	From 14 April, 2003 to 13 April, 2013
 LI-NING GOLF	PRC	25 (Note 25)	3075832	From 21 January, 2004 to 20 January, 2014
 LI-NING GOLF	PRC	28 (Note 28)	3075804	From 21 February, 2004 to 20 February, 2014
 LI-NING GOLF	PRC	3 (Note 3)	3075817	From 14 May, 2003 to 13 May, 2013
 LI-NING GOLF	PRC	9 (Note 9)	3075816	From 7 May, 2003 to 6 May, 2013
 LI-NING GOLF	PRC	16 (Note 16)	3075815	From 21 May, 2003 to 20 May, 2013
 LI-NING GOLF	PRC	18 (Note 18)	3075814	From 14 May, 2003 to 13 May, 2013
 LI-NING GOLF	PRC	22 (Note 22)	3075813	From 14 April, 2003 to 13 April, 2013
 LI-NING GOLF	PRC	24 (Note 24)	3075812	From 14 April, 2003 to 13 April, 2013













Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	25 (Note 25)	3075833	From 21 January, 2004 to 20 January, 2014
	PRC	28 (Note 28)	3075811	From 21 February, 2004 to 20 February, 2014
LI-NING GOLF	PRC	3 (Note 3)	3075825	From 14 May, 2003 to 13 May, 2013
LI-NING GOLF	PRC	9 (Note 9)	3075826	From 7 May, 2003 to 6 May, 2013
LI-NING GOLF	PRC	16 (Note 16)	3075827	From 14 May, 2003 to 13 May, 2013
LI-NING GOLF	PRC	22 (Note 22)	3075829	From 28 March, 2003 to 27 March, 2013
LI-NING GOLF	PRC	24 (Note 24)	3075830	From 14 April, 2003 to 13 April, 2013
LI-NING GOLF	PRC	25 (Note 25)	3075835	From 21 January, 2004 to 20 January, 2014
LI-NING GOLF	PRC	28 (Note 28)	3075831	From 21 February, 2004 to 20 February, 2014
LI-NING GOLF	PRC	3 (Note 3)	3075824	From 14 May, 2003 to 13 May, 2013
LI-NING GOLF	PRC	9 (Note 9)	3075823	From 7 May, 2003 to 6 May, 2013
LI-NING GOLF	PRC	16 (Note 16)	3075822	From 14 May, 2003 to 13 May, 2013
LI-NING GOLF	PRC	22 (Note 22)	3075820	From 14 April, 2003 to 13 April, 2013
LI-NING GOLF	PRC	24 (Note 24)	3075819	From 14 April, 2003 to 13 April, 2013
LI-NING GOLF	PRC	25 (Note 25)	3075834	From 28 February, 2004 to 27 February, 2014
LI-NING GOLF	PRC	28 (Note 28)	3075818	From 21 February, 2004 to 20 February, 2014
	PRC	9 (Note 9)	3075846	From 7 May, 2003 to 6 May, 2013
	PRC	12 (Note 12)	3075847	From 7 March, 2003 to 6 March, 2013
	PRC	16 (Note 16)	3075865	From 21 May, 2003 to 20 May, 2013















Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	18 (Note 18)	3075864	From 14 May, 2003 to 13 May, 2013
	PRC	22 (Note 22)	3075844	From 28 March, 2003 to 27 March, 2013
	PRC	24 (Note 24)	3075845	From 14 April, 2003 to 13 April, 2013
	PRC	25 (Note 25)	3075863	From 7 August, 2003 to 6 August, 2013
	PRC	26 (Note 26)	3075843	From 14 May, 2003 to 13 May, 2013
	PRC	28 (Note 28)	3075862	From 14 June, 2003 to 13 June, 2013
	PRC	43 (Note 43)	3075842	From 7 July, 2003 to 6 July, 2013
TEENAGERS	PRC	12 (Note 12)	3075853	From 7 March, 2003 to 6 March, 2013
TEENAGERS	PRC	16 (Note 16)	3075855	From 14 May, 2003 to 13 May, 2013
TEENAGERS	PRC	18 (Note 18)	3075854	From 28 April, 2003 to 27 April, 2013
TEENAGERS	PRC	22 (Note 22)	3075848	From 28 March, 2003 to 27 March, 2013
TEENAGERS	PRC	28 (Note 28)	3075856	From 14 June, 2003 to 13 June, 2013
TEENAGERS	PRC	43 (Note 43)	3075851	From 7 July, 2003 to 6 July, 2013
	PRC	12 (Note 12)	3075838	From 21 November, 2003 to 20 November, 2013
	PRC	16 (Note 16)	3075858	From 21 May, 2003 to 20 May, 2013
	PRC	18 (Note 18)	3075859	From 7 May, 2003 to 6 May, 2013
	PRC	22 (Note 22)	3075840	From 14 April, 2003 to 13 April, 2013
	PRC	28 (Note 28)	3075860	From 21 February, 2004 to 20 February, 2014














Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Hong Kong	18 (<i>Note 43</i>)	00166/1993	From 17 December, 1990 to 16 December, 2011
	Hong Kong	25 (<i>Note 44</i>)	00671/1993	From 17 December, 1990 to 16 December, 2011
	Hong Kong	28 (<i>Note 45</i>)	00670/1993	From 17 December, 1990 to 16 December, 2011
	Taiwan	18 (<i>Note 43</i>)	01023518	From 16 November, 2002 to 31 October, 2012
	Taiwan	25 (<i>Note 44</i>)	01034198	From 16 February, 2003 to 30 November, 2012
	Taiwan	28 (<i>Note 45</i>)	00999891	From 16 May, 2002 to 15 May, 2012
LI-NING	Taiwan	18 (<i>Note 43</i>)	01023519	From 16 November, 2002 to 31 October, 2012
LI-NING	Taiwan	25 (<i>Note 44</i>)	01034197	From 16 February, 2003 to 30 November, 2012
LI-NING	Taiwan	28 (<i>Note 45</i>)	00999890	From 16 May, 2002 to 15 May, 2012
	Taiwan	18 (<i>Note 43</i>)	01020922	From 1 November, 2002 to 31 October, 2012
	Taiwan	25 (<i>Note 44</i>)	01025203	From 1 December, 2002 to 30 November, 2012
	Taiwan	28 (<i>Note 45</i>)	01002978	From 16 June, 2002 to 15 May, 2012
	Kuwait	18 (<i>Note 43</i>)	47928	From 14 September, 2003 to 7 August, 2012
	Kuwait	25 (<i>Note 44</i>)	47891	From 6 September, 2003 to 7 August, 2012
	Kuwait	28 (<i>Note 45</i>)	47884	From 8 September, 2003 to 7 August, 2012
	Kuwait	18 (<i>Note 43</i>)	47927	From 6 September, 2003 to 7 August, 2012
	Kuwait	25 (<i>Note 44</i>)	47890	From 6 September, 2003 to 7 August, 2012
	Kuwait	28 (<i>Note 45</i>)	47883	From 6 September, 2003 to 7 August, 2012
	Saudi Arabia	18 (<i>Note 43</i>)	702/57	From 5 November, 2003 to 26 July, 2012















Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Saudi Arabia	25 (Note 44)	702/55	From 5 November, 2003 to 26 July, 2012
	Saudi Arabia	28 (Note 45)	702/56	From 5 November, 2003 to 26 July, 2012
	Saudi Arabia	18 (Note 43)	702/53	From 5 November, 2003 to 26 July, 2012
	Saudi Arabia	25 (Note 44)	702/52	From 5 November, 2003 to 26 July, 2012
	Saudi Arabia	28 (Note 45)	702/54	From 5 November, 2003 to 26 July, 2012
	Korea	18 (Note 43)	0574322	From 11 February, 2004 to 10 February, 2014
	Korea	25 (Note 44)	0574324	From 11 February, 2004 to 10 February, 2014
	Korea	28 (Note 45)	0574323	From 11 February, 2004 to 10 February, 2014
	Korea	18 (Note 43)	0574321	From 11 February, 2004 to 10 February, 2014
	Korea	28 (Note 45)	0574320	From 11 February, 2004 to 10 February, 2014
李寧牌	Japan	17 (Note 47)	2535246	From 31 May, 1993 to 30 May, 2013
李寧牌	Japan	21 (Note 48)	2620970	From 28 February, 1994 to 28 February, 2004
李寧牌	Japan	22 (Note 49)	2567283	From 31 August, 1993 to 30 August, 2013
李寧牌	Japan	24 (Note 50)	2671558	From 29 June, 1994 to 28 June, 2004
LI-NING	Japan	17 (Note 47)	2708736	From 31 July, 1995 to 30 July, 2005
LI-NING	Japan	21 (Note 48)	2542912	From 31 May, 1993 to 30 May, 2013
LI-NING	Japan	22 (Note 49)	2567281	From 31 August, 1993 to 30 August, 2013
LI-NING	Japan	24 (Note 50)	2567282	From 31 August, 1993 to 30 August, 2013
NING-LI	Japan	17 (Note 47)	2535247	From 31 May, 1993 to 30 May, 2013

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
NING-LI	Japan	21 (<i>Note 48</i>)	2586365	From 29 October, 1993 to 28 October, 2013
NING-LI	Japan	22 (<i>Note 49</i>)	2637155	From 31 March, 1994 to 30 March, 2004
NING-LI	Japan	24 (<i>Note 50</i>)	2585472	From 29 October, 1993 to 28 October, 2013
Europe				
	Greece	18 (<i>Note 43</i>)	146567	From 7 June, 2001 to 7 June, 2011
	Greece	25 (<i>Note 44</i>)	146567	From 7 June, 2001 to 7 June, 2011
	Greece	28 (<i>Note 45</i>)	146567	From 7 June, 2001 to 7 June, 2011
	England	18 (<i>Note 43</i>)	2271990	From 3 May, 2002 to 6 June, 2011
	England	25 (<i>Note 44</i>)	2271990	From 3 May, 2002 to 6 June, 2011
	England	28 (<i>Note 45</i>)	2271990	From 3 May, 2002 to 6 June, 2011
LI-NING	England	18 (<i>Note 43</i>)	2271994	From 5 April, 2002 to 6 June, 2011
	England	25 (<i>Note 44</i>)	2271996	From 5 April, 2002 to 6 June, 2011
LI-NING	Germany	18 (<i>Note 43</i>)	30136279	From 16 January, 2002 to 12 June, 2011
LI-NING	Spain	25 (<i>Note 44</i>)	2409305	From 22 April, 2002 to 19 June, 2011
LI-NING	Spain	28 (<i>Note 45</i>)	2409306	From 22 April, 2002 to 19 June, 2011
	Finland	18 (<i>Note 43</i>)	FI 224070	From 14 June, 2002 to 13 June, 2012
	Finland	25 (<i>Note 44</i>)	FI 224070	From 14 June, 2002 to 13 June, 2012
	Finland	28 (<i>Note 45</i>)	FI 224070	From 14 June, 2002 to 13 June, 2012
LI-NING	Finland	18 (<i>Note 43</i>)	FI 224071	From 14 June, 2002 to 13 June, 2012





Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Denmark	18 (<i>Note 43</i>)	VR 2002 00145	From 10 January, 2002 to 10 January, 2012
	Denmark	25 (<i>Note 44</i>)	VR 2002 00145	From 10 January, 2002 to 10 January, 2012
	Denmark	28 (<i>Note 45</i>)	VR 2002 00145	From 10 January, 2002 to 10 January, 2012
LI-NING	Denmark	18 (<i>Note 43</i>)	VR 2001 04679	From 20 November, 2001 to 20 November, 2011
	Norway	18 (<i>Note 43</i>)	213945	From 15 August, 2002 to 15 August, 2012
	Norway	25 (<i>Note 44</i>)	213945	From 15 August, 2002 to 15 August, 2012
	Norway	28 (<i>Note 45</i>)	213945	From 15 August, 2002 to 15 August, 2012
LI-NING	Norway	18 (<i>Note 43</i>)	216235	From 24 October, 2002 to 24 October, 2012
	Sweden	18 (<i>Note 43</i>)	352005	From 25 January, 2002 to 25 January, 2012
	Sweden	25 (<i>Note 44</i>)	352005	From 25 January, 2002 to 25 January, 2012
	Sweden	28 (<i>Note 45</i>)	352005	From 25 January, 2002 to 25 January, 2012
LI-NING	Sweden	18 (<i>Note 43</i>)	352006	From 25 January, 2002 to 25 January, 2012
South America				
	Chile	18 (<i>Note 43</i>)	611.700	From 5 December, 2001 to 4 December, 2011
	Chile	25 (<i>Note 44</i>)	611.701	From 5 December, 2001 to 4 December, 2011
	Chile	28 (<i>Note 45</i>)	611.702	From 5 December, 2001 to 4 December, 2011
LI-NING	Chile	18 (<i>Note 43</i>)	611.695	From 5 December, 2001 to 4 December, 2011
LI-NING	Chile	28 (<i>Note 45</i>)	611.697	From 5 December, 2001 to 4 December, 2011

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Chile	28 (Note 45)	611.699	From 5 December, 2001 to 4 December, 2011
	Chile	18 (Note 43)	611.698	From 5 December, 2001 to 4 December, 2011
	Argentina	18 (Note 43)	1857788	From 11 January, 2002 to 11 January, 2012
	Argentina	25 (Note 44)	1857789	From 11 January, 2002 to 11 January, 2012
	Argentina	28 (Note 45)	1896872	From 19 November, 2002 to 19 November, 2012
LI-NING	Argentina	18 (Note 43)	1896874	From 19 November, 2002 to 19 November, 2012
LI-NING	Argentina	28 (Note 45)	1896873	From 19 November, 2002 to 19 November, 2012
	Argentina	18 (Note 43)	1896871	From 19 November, 2002 to 19 November, 2012
	Argentina	28 (Note 45)	1896870	From 19 November, 2002 to 19 November, 2012
	Peru	18 (Note 43)	00076014	From 31 October, 2001 to 31 October, 2011
	Peru	25 (Note 44)	00076222	From 8 November, 2001 to 8 November, 2011
	Peru	28 (Note 45)	00077038	From 14 December, 2001 to 14 December, 2011
LI-NING	Peru	18 (Note 43)	00076223	From 9 November, 2001 to 9 November, 2011
LI-NING	Peru	25 (Note 44)	00076318	From 9 November, 2001 to 9 November, 2011
LI-NING	Peru	28 (Note 45)	00076546	From 22 November, 2001 to 22 November, 2011
	Peru	18 (Note 43)	00076015	From 31 October, 2001 to 31 October, 2011
	Peru	25 (Note 44)	00076384	From 14 November, 2001 to 14 November, 2011
	Peru	28 (Note 45)	00076887	From 5 December, 2001 to 5 December, 2011
	Honduras	18 (Note 43)	89394	From 28 November, 2003 to 28 November, 2013






Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Honduras	25 (Note 44)	89397	From 28 November, 2003 to 28 November, 2013
	Honduras	28 (Note 45)	89399	From 28 November, 2003 to 28 November, 2013
	Honduras	18 (Note 43)	89392	From 28 November, 2003 to 28 November, 2013
	Honduras	25 (Note 44)	89391	From 28 November, 2003 to 28 November, 2013
	Honduras	28 (Note 45)	89395	From 28 November, 2003 to 28 November, 2013
LI-NING	Honduras	18 (Note 43)	89396	From 28 November, 2003 to 28 November, 2013
LI-NING	Honduras	25 (Note 44)	89393	From 28 November, 2003 to 28 November, 2013
LI-NING	Honduras	28 (Note 45)	89398	From 28 November, 2003 to 28 November, 2013
	Costa Rica	18 (Note 43)	139009	From 23 May, 2003 to 23 May, 2013
	Costa Rica	25 (Note 44)	137317	From 31 January, 2003 to 31 January, 2013
	Costa Rica	28 (Note 45)	137316	From 31 January, 2003 to 31 January, 2013
	Costa Rica	18 (Note 43)	137318	From 31 January, 2003 to 31 January, 2013
	Costa Rica	25 (Note 44)	140542	From 2 September, 2002 to 2 September, 2013
	Costa Rica	28 (Note 45)	137315	From 31 January, 2003 to 31 January, 2013
LI-NING	Costa Rica	18 (Note 43)	139354	From 18 June, 2003 to 18 June, 2013
LI-NING	Costa Rica	25 (Note 44)	140543	From 2 September, 2003 to 2 September, 2013
LI-NING	Costa Rica	28 (Note 45)	137314	From 31 January, 2003 to 31 January, 2013
	Panama	18 (Note 43)	119583-01	From 20 February, 2002 to 20 February, 2012
	Panama	28 (Note 45)	119585-01	From 20 February, 2002 to 20 February, 2012

Trade/service marks	Place of registration	Class	Registration number	Term of registration period/ Registration Date
	Panama	18 (Note 43)	119589-01	From 20 February, 2002 to 20 February, 2012
	Panama	28 (Note 45)	119590-01	From 20 February, 2002 to 20 February, 2012
LI-NING	Panama	18 (Note 43)	119586-01	From 20 February, 2002 to 20 February, 2012
	Colombia	18 (Note 43)	266976	From 26 February, 2003 to 26 February, 2013
	Colombia	25 (Note 44)	265893	From 11 March, 2003 to 11 March, 2013
	Colombia	28 (Note 45)	265895	From 11 March, 2003 to 11 March, 2013
	Colombia	18 (Note 43)	265889	From 26 February, 2003 to 26 February, 2013
	Colombia	25 (Note 44)	265891	From 26 February, 2003 to 26 February, 2013
	Colombia	28 (Note 45)	265892	From 26 February, 2003 to 26 February, 2013
LI-NING	Colombia	18 (Note 43)	265887	From 26 February, 2003 to 26 February, 2013
LI-NING	Colombia	25 (Note 44)	265890	From 26 February, 2003 to 26 February, 2013
LI-NING	Colombia	28 (Note 45)	267917	From 26 February, 2003 to 26 February, 2013
Pacific				
	Australia	18 (Note 43)	879070	From 13 February, 2002 to 13 June, 2011
	Australia	25 (Note 44)	879070	From 13 February, 2002 to 13 June, 2011
	Australia	28 (Note 45)	879070	From 13 February, 2002 to 13 June, 2011
LI-NING	Australia	18 (Note 43)	879071	From 15 March, 2002 to 13 June, 2011
LI-NING	Australia	25 (Note 44)	879071	From 15 March, 2002 to 13 June, 2011
LI-NING	Australia	28 (Note 45)	879071	From 15 March, 2002 to 13 June, 2011
	Australia	18 (Note 43)	879069	From 15 March, 2002 to 13 June, 2011
	Australia	25 (Note 44)	879069	From 15 March, 2002 to 13 June, 2011
	Australia	28 (Note 45)	879069	From 15 March, 2002 to 13 June, 2011


























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






Trademark	Place of Registration	Class	Registration number	Term of registration period/ Registration Date
	PRC	25	568045	10 October, 1991- 9 October, 2011
	PRC	25	231493	15 August, 1985- 14 August, 2005
卡帕	PRC	25	1152458	21 February, 1998- 20 February, 2008
卡琶	PRC	25	1152468	21 February, 1998- 20 February, 2008
卡葩	PRC	25	1152469	21 February, 1998- 20 February, 2008
背靠背	PRC	28	3085723	14 June, 2003- 13 June, 2013
背靠背	PRC	18	3085725	14 May, 2003- 13 May, 2013
	PRC	18, 25, 28	IR666005	14 November, 1996- 13 November, 2006
	PRC	18, 25, 28	IR697410	17 July, 1998- 16 July, 2008















As at the Last Practicable Date, we have applied for the registration of the following trade or service marks:












Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
Asia				
	PRC	10 (Note 10)	3065775	11 January, 2002
	PRC	11 (Note 11)	3065774	11 January, 2002
	PRC	28 (Note 28)	3823966 (additional items)	2 December, 2003
	PRC	30 (Note 30)	3065761	11 January, 2002
	PRC	32 (Note 32)	3065759	11 January, 2002
<u>LI-NING</u>	PRC	10 (Note 10)	3065841	11 January, 2002
<u>LI-NING</u>	PRC	28 (Note 28)	3823968 (additional items)	2 December, 2003
<u>LI-NING</u>	PRC	40 (Note 40)	3065817	11 January, 2002
<u>LI-NING</u>	PRC	41 (Note 41)	3065816	11 January, 2002

Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
	PRC	10 (Note 10)	3065742	11 January, 2002
	PRC	11 (Note 11)	3065741	11 January, 2002
	PRC	28 (Note 28)	3823967 (additional items)	2 December, 2003
	PRC	30 (Note 30)	3065728	11 January, 2002
	PRC	32 (Note 32)	3065726	11 January, 2002
李宁	PRC	10 (Note 10)	3065808	11 January, 2002
李宁	PRC	14 (Note 14)	3823961	2 December, 2003
李宁	PRC	18 (Note 18)	3823962	2 December, 2003
李宁	PRC	24 (Note 24)	3823963	2 December, 2003
李宁	PRC	25 (Note 25)	3823971	2 December, 2003
李宁	PRC	26 (Note 26)	3823964	2 December, 2003
李宁	PRC	28 (Note 28)	3823970 (additional items)	2 December, 2003
李宁	PRC	35 (Note 35)	3065789	11 January, 2002
 LI-NING GOLF	PRC	18 (Note 18)	3075807	22 January, 2002
LI-NING GOLF	PRC	18 (Note 18)	3075828	22 January, 2002
LI-NING GOLF	PRC	18 (Note 18)	3075821	22 January, 2002
TEENAGERS	PRC	9 (Note 9)	3075852	22 January, 2002
TEENAGERS	PRC	24 (Note 24)	3075849	22 January, 2002
TEENAGERS	PRC	25 (Note 25)	3075857	22 January, 2002
TEENAGERS	PRC	26 (Note 26)	3075850	22 January, 2002
 TEENAGERS	PRC	9 (Note 9)	3075836	22 January, 2002
 TEENAGERS	PRC	24 (Note 24)	3075839	22 January, 2002
 TEENAGERS	PRC	25 (Note 25)	3075861	22 January, 2002
 TEENAGERS	PRC	26 (Note 26)	3075837	22 January, 2002

Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
	PRC	43 (Note 43)	3075841	22 January, 2002
	UAE	18 (Note 43)	48820	7 August, 2002
	UAE	25 (Note 44)	48821	7 August, 2002
	UAE	28 (Note 45)	48822	7 August, 2002
	UAE	18 (Note 43)	48823	7 August, 2002
	UAE	25 (Note 44)	48824	7 August, 2002
	UAE	28 (Note 45)	48825	7 August, 2002
	Oman	18 (Note 43)	28633	29 July, 2002
	Oman	25 (Note 44)	28634	29 July, 2002
	Oman	28 (Note 45)	28635	29 July, 2002
	Oman	18 (Note 43)	28630	29 July, 2002
	Oman	25 (Note 44)	28631	29 July, 2002
	Oman	28 (Note 45)	28632	29 July, 2002
	Qatar	18 (Note 43)	27953	28 July, 2002
	Qatar	25 (Note 44)	27954	28 July, 2002
	Qatar	28 (Note 45)	27955	28 July, 2002
	Qatar	18 (Note 43)	27950	28 July, 2002
	Qatar	25 (Note 44)	27951	28 July, 2002
	Qatar	28 (Note 45)	27952	28 July, 2002
	Bahrain	18 (Note 43)	31827	5 August, 2002
	Bahrain	25 (Note 44)	31828	5 August, 2002
	Bahrain	28 (Note 45)	31829	5 August, 2002
	Bahrain	18 (Note 43)	31830	5 August, 2002
	Bahrain	25 (Note 44)	31831	5 August, 2002
	Bahrain	28 (Note 45)	31832	5 August, 2002
<u>LI-NING</u>	Korea	18 (Note 43)	40-2003-0016990	16 April, 2003
<u>LI-NING</u>	Korea	25 (Note 44)	40-2003-0016991	16 April, 2003

Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
<u>LI-NING</u>	Korea	28 (Note 45)	40-2003-0016992	16 April, 2003
	India	18 (Note 43)	1261259	15 January, 2004
	India	25 (Note 44)	1261259	15 January, 2004
	India	28 (Note 45)	1261259	15 January, 2004
<u>LI-NING</u>	India	18 (Note 43)	1261257	15 January, 2004
<u>LI-NING</u>	India	25 (Note 44)	1261257	15 January, 2004
<u>LI-NING</u>	India	28 (Note 45)	1261257	15 January, 2004
 <u>LI-NING</u>	India	18 (Note 43)	1261258	15 January, 2004
 <u>LI-NING</u>	India	25 (Note 44)	1261258	15 January, 2004
 <u>LI-NING</u>	India	28 (Note 45)	1261258	15 January, 2004
	Pakistan	28 (Note 43)	192289	28 February, 2004
	Pakistan	25 (Note 44)	192288	28 February, 2004
	Pakistan	18 (Note 45)	192287	28 February, 2004
LI-NING	Pakistan	28 (Note 43)	192295	28 February, 2004
LI-NING	Pakistan	25 (Note 44)	192294	28 February, 2004
LI-NING	Pakistan	18 (Note 45)	192293	28 February, 2004
 <u>LI-NING</u>	Pakistan	28 (Note 43)	192291	28 February, 2004
 <u>LI-NING</u>	Pakistan	18 (Note 44)	192292	28 February, 2004
 <u>LI-NING</u>	Pakistan	25 (Note 45)	192290	28 February, 2004
Europe				
<u>LI-NING</u>	Greece	18 (Note 43)	146566	7 June, 2001
<u>LI-NING</u>	Greece	25 (Note 44)	146566	7 June, 2001
<u>LI-NING</u>	Greece	28 (Note 45)	146566	7 June, 2001
 <u>LI-NING</u>	Greece	18 (Note 43)	146565	7 June, 2001
 <u>LI-NING</u>	Greece	25 (Note 44)	146565	7 June, 2001
 <u>LI-NING</u>	Greece	28 (Note 45)	146565	7 June, 2001
North America				
	Canada	18 (Note 43)	1105192	4 June, 2001
	Canada	25 (Note 44)	1105192	4 June, 2001

Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
	Canada	28 (Note 45)	1105192	4 June, 2001
LI-NING	Canada	18 (Note 43)	1105191	4 June, 2001
LI-NING	Canada	25 (Note 44)	1105191	4 June, 2001
LI-NING	Canada	28 (Note 45)	1105191	4 June, 2001
	Canada	18 (Note 43)	1105190	4 June, 2001
	Canada	25 (Note 44)	1105190	4 June, 2001
	Canada	28 (Note 45)	1105190	4 June, 2001
	USA	18 (Note 43)	78072724	6 July, 2001
	USA	25 (Note 44)	78072724	6 July, 2001
	USA	26 (Note 46)	78072724	6 July, 2001
	USA	28 (Note 45)	78072724	6 July, 2001
LI-NING	USA	18 (Note 43)	78072722	6 July, 2001
LI-NING	USA	25 (Note 44)	78072722	6 July, 2001
LI-NING	USA	26 (Note 46)	78072722	6 July, 2001
LI-NING	USA	28 (Note 45)	78072722	6 July, 2001
South America				
	Brazil	18 (Note 43)	823334210	8 June, 2001
	Brazil	25 (Note 44)	823334228	8 June, 2001
	Brazil	28 (Note 45)	823334236	8 June, 2001
LI-NING	Brazil	18 (Note 43)	823334180	8 June, 2001
LI-NING	Brazil	25 (Note 44)	823334198	8 June, 2001
LI-NING	Brazil	28 (Note 45)	823334201	8 June, 2001
	Brazil	18 (Note 43)	823334244	8 June, 2001
	Brazil	25 (Note 44)	823334252	8 June, 2001
	Brazil	28 (Note 45)	823334260	8 June, 2001

Trade/Service Mark	Place of Registration	Class	Application number	Date of Application
	Panama	25 (Note 44)	119584-01	20 February, 2002
LI-NING	Panama	25 (Note 44)	119587-01	20 February, 2002
LI-NING	Panama	28 (Note 45)	119588-01	20 February, 2002
	Venezuela	18 (Note 43)	6330/2002	5 June, 2002
	Venezuela	25 (Note 44)	6331/2002	5 June, 2002
	Venezuela	28 (Note 45)	6332/2002	5 June, 2002
 LI-NING	Venezuela	18 (Note 43)	6327/2002	5 June, 2002
 LI-NING	Venezuela	25 (Note 44)	6328/2002	5 June, 2002
 LI-NING	Venezuela	28 (Note 45)	6329/2002	5 June, 2002
LI-NING	Venezuela	18 (Note 43)	6325/2002	5 June, 2002
LI-NING	Venezuela	25 (Note 44)	6326/2002	5 June, 2002
Africa				
	South Africa	25 (Note 44)	2003/10889	30 June, 2003
	South Africa	28 (Note 45)	2003/10890	30 June, 2003
 LI-NING	South Africa	25 (Note 44)	2003/10887	30 June, 2003
 LI-NING	South Africa	28 (Note 45)	2003/10888	30 June, 2003
LI-NING	South Africa	25 (Note 44)	2003/10885	30 June, 2003
LI-NING	South Africa	28 (Note 45)	2003/10886	30 June, 2003

Notes:

- The specification of goods or services for which registration is sought is as follows:
Chemicals used in industry and agriculture, paper pulp, energy source.
- The specification of goods or services for which registration is sought is as follows:
Colorants, paints, ink, varnish, lacquers and preservatives.
- The specification of goods or services for which registration is sought is as follows:
Bleaching preparations, cleaning preparations, soap, perfumery, toothpaste etc.
- The specification of goods or services for which registration is sought is as follows:
Industrial oils, lubricants, fuels and illuminants etc.
- The specification of goods or services for which registration is sought is as follows:
Pharmaceuticals, food for babies, disinfectants etc.

6. The specification of goods or services for which registration is sought is as follows:
Common metals, building materials, small items of metal hardware and mineral sand etc.
7. The specification of goods or services for which registration is sought is as follows:
Machines, machine tools, motors and engines.
8. The specification of goods or services for which registration is sought is as follows:
Hand tools and implements (hand operated), knives and cutlery.
9. The specification of goods or services for which registration is sought is as follows:
Scientific, signaling, optical and teaching apparatus, computers, data processing equipment etc.
10. The specification of goods or services for which registration is sought is as follows:
Surgical and medical equipment, artificial limbs etc.
11. The specification of goods or services for which registration is sought is as follows:
Apparatus for lighting, heating, refrigerating, ventilating and sanitary purposes.
12. The specification of goods or services for which registration is sought is as follows:
Vehicles and transportation apparatus.
13. The specification of goods or services for which registration is sought is as follows:
Firearms, ammunition, fireworks.
14. The specification of goods or services for which registration is sought is as follows:
Precious metals, jewellery, precious stones, horological and chronometric instruments.
15. The specification of goods or services for which registration is sought is as follows:
Musical instruments.
16. The specification of goods or services for which registration is sought is as follows:
Paper, printed matter, stationery, office supplies, printer's blocks etc.
17. The specification of goods or services for which registration is sought is as follows:
Rubber, asbestos and goods made from asbestos, insulating materials etc.
18. The specification of goods or services for which registration is sought is as follows:
Leather and synthetic leather, animal skins, trunks, umbrellas, whips, harness and saddlery.
19. The specification of goods or services for which registration is sought is as follows:
Non-metallic construction materials, asphalt, non-metallic buildings.
20. The specification of goods or services for which registration is sought is as follows:
Furniture, goods made of wood, reed and other crafted products.

21. The specification of goods or services for which registration is sought is as follows:
Kitchen utensils, ceramics, pottery, glass etc.
22. The specification of goods or services for which registration is sought is as follows:
Cables, rope, nets, awnings, padding etc.
23. The specification of goods or services for which registration is sought is as follows:
Yarns and threads for textile use.
24. The specification of goods or services for which registration is sought is as follows:
Textiles, bedding, table cloth etc.
25. The specification of goods or services for which registration is sought is as follows:
Clothing, shoes, hats.
26. The specification of goods or services for which registration is sought is as follows:
Lace and embroidery, buttons, other decorative items.
27. The specification of goods or services for which registration is sought is as follows:
Carpets, rugs, mats.
28. The specification of goods or services for which registration is sought is as follows:
Entertainment equipment, toys, sports equipment.
29. The specification of goods or services for which registration is sought is as follows:
Meat, fish, poultry, dairy products, edible oil etc.
30. The specification of goods or services for which registration is sought is as follows:
Coffee, tea, cocoa, sugar, salt, seasonings.
31. The specification of goods or services for which registration is sought is as follows:
Grains and products, fruits.
32. The specification of goods or services for which registration is sought is as follows:
Beer, mineral water, and beverages.
33. The specification of goods or services for which registration is sought is as follows:
Alcoholic beverages.
34. The specification of goods or services for which registration is sought is as follows:
Tobacco, smokers' articles, and matches.
35. The specification of goods or services for which registration is sought is as follows:
Advertising, business management and office functions.

36. The specification of goods or services for which registration is sought is as follows:
Insurance, finance, and real estate affairs.
37. The specification of goods or services for which registration is sought is as follows:
Building construction, repair and installation services.
38. The specification of goods or services for which registration is sought is as follows:
Telecommunications.
39. The specification of goods or services for which registration is sought is as follows:
Transport, travel.
40. The specification of goods or services for which registration is sought is as follows:
Treatment of materials.
41. The specification of goods or services for which registration is sought is as follows:
Education, training, entertainment and sporting and cultural activities.
42. The specification of goods or services for which registration is sought is as follows:
Miscellaneous services.
43. Class 18 goods include:
Leather and imitations of leather; and goods made of these materials and not included in other classes; animal skins, hides; trunks and traveling bags; umbrellas, parasols and walking sticks; whips and harness and saddlery.
44. Class 25 goods include:
Clothing, footwear, headgear.
45. Class 28 goods include:
Games and playthings; gymnastics and sporting articles not included in other classes; decorations for Christmas Trees.
46. Class 26 goods include:
Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.
47. Class 17 goods include:
Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes not of metal.
48. Class 21 goods include:
Household or kitchen utensils and containers (not of precious metal or coated therewith); combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steel wool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.



49. Class 22 goods include:

Ropes, string, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing material (except of rubber or plastic); raw fibrous textile materials.

50. Class 24 goods include:

Textiles and textile goods, not included in other classes; bed and table covers.

As at the Latest Practicable Date, we are applying for registration of the following trade or service marks in the relevant class in individual designated countries under the Madrid Agreement and Madrid Protocol:

Trade/ Service Mark	Class*	Registration number	Registration Date
	09, 10, 18, 24, 25, 26	574045	21 January 1991
<u>LI-NING</u>	06, 09, 10, 16, 18, 19, 24, 25, 26, 28	574044	21 January 1991
李寧牌	18, 24, 25, 26	696879	27 November 1997
	03, 09, 14, 18, 24, 25, 26	696878	27 November 1997
<u>LI-NING</u>	25, 28	691228	26 November 1997
李寧	03, 09, 14	692527	27 November 1997

**Note: The classes of trademark relate to goods including clothing, uniforms, overcoat, knitwear, jackets, ready-made clothing, garment, traveling bags and footwear.*

(b) *Patent*

Beijing Li Ning was granted by the National Intellectual Property Agency the Utility Model Patent (實用新形專利) in respect of the “Arch Upholding Damping Sole” with the registration number ZL 01 2 60826.2 on 24 July, 2002. The patent is valid for 10 years from the date of application, i.e. 13 September 2001.

(c) *Domain name*

As at the Latest Practicable Date, we have registered the following domain name:

Domain Name	Registration Date	Expiration date
The PRC		
Lining.com.cn	14 August, 2002	14 August, 2004
李寧體育 ● 中国	6 November, 2000	23 July, 2004
李宁体育 ● 中国	6 November, 2000	23 July, 2004
李宁体育 ● cn	6 November, 2000	23 July, 2004
李寧體育 ● cn	6 November, 2000	23 July, 2004
Liningsports.com	18 February, 2000	18 February, 2005
Liningonline.com	18 February, 2000	18 February, 2005
li-ning.com.cn	5 January, 1997	1 July, 2004

Outside the PRC

Lining.com	3 March, 1999	3 March, 2005
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Note: The content of the website does not constitute part of this prospectus.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our business.

C. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Interests and short positions of Directors and chief executive in the Shares

Immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised), the interests of the Directors and chief executive in the Shares of the Company and its associated corporations (within the meaning of SFO), and the short positions (within the meaning of SFO) of such persons in the Shares of the Company and its associated corporations, which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange pursuant to section 341 of SFO (including interests which they are taken or deemed to have under SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or will be required pursuant to section 352 of SFO to be entered in the register of interests referred to therein (all of the aforesaid being “Discloseable Interests”), will be as follows:

(i) Long position in the Shares

Name of Director	Personal interest	Capacity and number of Shares held		Number of equity derivatives (Options) held	Approximate % in total share capital	
		Family interest	Corporate interest		Total	
Mr. Li Ning	-	-	405,424,000	-	405,424,000 <i>(Note 1)</i>	41.116%
Mr. Chen Yi Hong	15,926,000	2,810,000	-	750,000	19,486,000 <i>(Note 2)</i>	1.976%
Mr. Zhang Zhi Yong	3,700,000	-	-	11,347,000	15,047,000 <i>(Note 3)</i>	1.53%
Mr. Tan Wee Seng	-	-	-	3,987,000	3,987,000 <i>(Note 4)</i>	0.40%

Notes:

- (1) Mr. Li Ning is taken to be interested in an aggregate of 405,424,000 Shares held by Victory Mind Assets, Champion Link and Alpha Talent respectively as follows:
- (a) 220,174,000 Shares are held by Victory Mind Assets 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 is interested;
- (b) 150,000,000 Shares are held by Champion Link. The entire interest in Champion Link 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 is interested; and

- (c) 35,250,000 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Employee Share Purchase Scheme. Mr. Li Ning is taken to be interested in 35,250,000 Shares that Alpha Talent is interested.
- (2) Mr. Chen Yi Hong is the husband of Ms. Liu Pei Ying. 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 Employee Share Purchase Scheme. Ms. Liu Pei Ying, in addition to the 2,810,000 Shares registered in her name, is deemed to be interested in the 15,926,000 Shares registered in the name of her husband, Mr. Chen Yi Hong, and the options granted to her husband to purchase 750,000 Shares under the Employee Share Purchase Scheme.
- (3) 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, Mr. Zhang Zhi Yong is also taken to be interested as a grantee of options to purchase 9,750,000 Shares under the Employee Share Purchase Scheme and options to subscribe for 1,597,000 Shares under the Pre-IPO Share Option Scheme. Please see this appendix for more information relating to the two schemes.
- (4) Mr. Tan Wee Seng is interested in a total of 3,987,000 Shares. He is taken to be interested as a grantee of options to purchase 2,700,000 Shares under the Employee Share Purchase Scheme and options to subscribe for 1,287,000 Shares under the Pre-IPO Share Option Scheme. Please see this appendix for more information relating to the two schemes.
- (ii) *Long position in Beijing Dong Xiang, an associated corporation (as defined in SFO) of the Company*

Name of Director	Capacity held	% interest held
Mr. Chen Yi Hong	Corporate (<i>Note</i>)	20%

Note: The registered capital of Beijing Dong Xiang is held as to 20% by Shanghai Lei De. Shanghai Lei De is owned as to 49.1% by Mr. Chen Yi Hong and 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.

(iii) *Short position in the Shares*

Name of Director	Number of Shares in short position	Capacity	Approximate % in total share capital
Mr. Li Ning	25,230,000	Corporate (<i>Note 1</i>)	2.6%
	36,976,000	Corporate (<i>Note 2</i>)	3.7%

Notes:

1. 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 in the Company. As at the Latest Practicable Date, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to the Employee Share Purchase Scheme. Mr. Li Ning is the sole shareholder of Alpha Talent, a controlled corporation of Mr. Li Ning, he is thus taken to have a short position in the 25,230,000 Shares.

2. Mr. Li Ning is taken to have a short position of 36,976,000 Shares pursuant to the Stock Borrowing Agreement between Victory Mind Assets and DBS Asia. Victory Mind Assets is a controlled corporation of Mr. Li Ning.

(b) Substantial shareholder and persons who have an interest or short position discloseable under Divisions 2 and 3 of Part XV of SFO

Immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised), so far as the Directors are aware and taking no account of the Shares which may be taken up under the Share Offer and Shares which may fall to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the following persons had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

(i) Long position in the Shares

Substantial Shareholder	Number of Shares held	Capacity	Type of interest	% in total share capital
Mr. Li Ning <i>(Note 1)</i>	405,424,000	Interest of controlled corporations	Personal	41.116%
Victory Mind Assets <i>(Note 1)</i>	220,174,000	Beneficial owner	Corporate	22.329%
Champion Link <i>(Note 1)</i>	150,000,000	Beneficial owner	Corporate	15.212%
Alpha Talent <i>(Note 1)</i>	35,250,000	Beneficial owner	Corporate	3.575%
Mr. Li Chun <i>(Note 2)</i>	370,174,000	Interest of controlled corporations	Personal	37.541%
Victory Mind Assets <i>(Note 2)</i>	220,174,000	Beneficial owner	Corporate	22.329%
Champion Link <i>(Note 2)</i>	150,000,000	Beneficial owner	Corporate	15.212%
Ms. Li Ying <i>(Note 3)</i>	51,060,000	Interest of controlled corporation	Personal	5.178%

Substantial Shareholder	Number of Shares held	Capacity	Type of interest	% in total share capital
Mr. Zhao Jian Guo (Note 3)	51,060,000	Interest of controlled corporation	Personal	5.178%
Double Essence (Note 3)	51,060,000	Interest of controlled corporation	Corporate	5.178%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 4)	149,737,500	Interest of controlled corporation	Corporate	15.185%
Tetrad (Note 4)	149,737,500	Beneficial owner	Corporate	15.185%

Notes:

1. Mr. Li Ning is taken to be interested in an aggregate of 405,424,000 Shares held by Victory Mind Assets, Champion Link and Alpha Talent, respectively, as follows:
 - (a) 220,174,000 Shares are held by Victory Mind Assets which is owned as to 62.106% by Mr. Li Ning and 37.894% by Mr. Li Chun, the brother of Mr. Li Ning. Victory Mind Assets is a controlled corporation of Mr. Li Ning;
 - (b) 150,000,000 Shares held by Champion Link, 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 Ning and his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and is taken to be interested in the 150,000,000 Shares that Champion Link is interested; and
 - (c) 35,250,000 Shares are held by Alpha Talent, which is solely owned by Mr. Li Ning and is a company established solely for the purpose of holding the relevant Shares under the Employee Share Purchase Scheme. Alpha Talent is a controlled corporation of Mr. Li Ning.
2. Mr. Li Chun is taken to be interested in an aggregate of 370,174,000 Shares held by Victory Mind Assets and Champion Link, respectively, as follows:
 - (a) 220,174,000 Shares are held by Victory Mind Assets 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 is a controlled corporation of Mr. Li Chun; and

- (b) 150,000,000 Shares held by Champion Link, 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 is interested.
3. Double Essence is beneficially owned by Ms Li Ying, the sister of Mr. Li Ning, and her husband, Mr. Zhao Jian Guo, on an equal basis. Double Essence is interested in 51,060,000 Shares and Ms. Li Ying is taken to be interested in 51,060,000 Shares in which Double Essence is interested. Mr. Zhao Jian Guo, the husband of Ms. Li Ying, is also taken to be interested in the 51,060,000 Shares that her wife, Ms. Li Ying, is interested.
4. Tetrad is wholly-owned by and is a controlled corporation of Government of Singapore Investment Corporation (Ventures) Pte. Ltd, which is taken to be interested in 149,737,500 Shares that Tetrad is interested in.

(ii) *Short position in the Shares*

Name of Director	Number of Shares in short position	Capacity	Approximate % in total share capital
Mr. Li Ning	25,230,000	Corporate (<i>Note 1</i>)	2.6%
	36,976,000	Corporate (<i>Note 2</i>)	3.7%
Mr. Li Chun	36,976,000	Corporate (<i>Note 3</i>)	3.7%

Notes:

1. 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 in the Company. As at the Latest Practicable Date, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to the Employee Share Purchase Scheme. Mr. Li Ning is the sole shareholder of Alpha Talent, a controlled corporation of Mr. Li Ning, and he is thus taken to have a short position in the 25,230,000 Shares.
2. Mr. Li Ning is taken to have a short position of 36,976,000 Shares pursuant to the Stock Borrowing Agreement between Victory Mind Assets and DBS Asia. Victory Mind Assets is a controlled corporation of Mr. Li Ning.
3. Mr. Li Chun is entitled to exercise or control the exercise of more than one-third of the voting power of Victory Mind Assets, a controlled corporation of Mr. Li Chun. He is therefore taken to have a short position in the 36,976,000 Shares pursuant to the Stock Borrowing Agreement between Victory Mind Assets and DBS Asia.

(c) *Negative statements regarding interests in securities*

None of the Directors or chief executive will immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised) have any Discloseable Interests (as defined in (a) above), other than as disclosed at (a) above.

Taking no account of Shares which may be taken up under the Share Offer and Shares which may fall to be issued upon the exercise of options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, none of the Directors knows of any persons who will immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised) have a notifiable interest (for the purposes of SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of SFO) in the Shares, other than as disclosed at (b) above.

2. Particulars of the Directors' service contracts

- (a) Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on the date when dealings in the Shares on Main Board commence and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salary payable to each of the executive Directors for the year ending 31 December, 2004 is estimated as follows:

Executive Directors	<i>US\$</i>
Mr. Li Ning	330,000
Mr. Zhang Zhi Yong	220,000
Mr. Tan Wee Seng	200,000
Mr. Chen Yi Hong	155,000

The basic salary of each of the executive Directors will be reviewed by the Board at the end of each financial year.

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board or a committee thereof. The maximum aggregate amount of such discretionary bonus payable to all the executive Directors for any financial year shall not be more than 7.5% of the audited consolidated profit after taxation and minority interests but before extraordinary items and such bonus of the Group for the relevant financial year.

Each of the executive Directors will also be entitled to reimbursement of traveling expenses and all reasonable out-of-pocket expenses properly incurred in the performance of his/her duties under the employment.

- (b) Each of non-executive and independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing on the date when dealings of shares on the Main Board commence and thereafter shall continue from year to year until terminated by the giving of one month's notice in writing thereof by either party to the other.

The annual fees payable to each of the non-executive and independent non-executive Directors for the year ending 31 December, 2004 is estimated as follows:

Non-executive Directors	<i>HK\$</i>
Mr. Lim Meng Ann	150,000
Mr. Stuart Schonberger	150,000
Mr. Fong Ching, Eddy	150,000
Independent non-executive Directors	<i>HK\$</i>
Mr. Koo Fook Sun, Louis	150,000
Ms. Wang Ya Fei	150,000
Mr. Chan Chung Bun, Bunny	150,000

Each of the non-executive and independent non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant service contract.

3. Directors' remuneration

Remuneration and benefits in kind of approximately RMB4.0 million in aggregate were paid and granted by us to the Directors for the year ended 31 December, 2003.

Under the current arrangements, the aggregate remuneration and benefits in kind which the Directors including non-executive and independent non-executive Directors are entitled to receive for the financial year ending 31 December, 2004, excluding the discretionary bonuses payable to the executive Directors, is expected to be approximately RMB8.2 million.

4. Agency fees or commission

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

5. Employee share purchase scheme set up by Mr. Li Ning

To provide for incentives and reward to certain key individuals who have contributed to the economic achievement of the Group, Mr. Li Ning has, through Alpha Talent, established the Employee Share Purchase Scheme for the purchase of Shares beneficially held by him in Alpha Talent. As part of the reorganisation of the Group prior to Listing, Mr. Li Ning

directed the Company, as part of the consideration for the acquisition by the Company of the indirect equity interest of Mr. Li Ning in RealSports, to transfer 35,250,000 Shares beneficially owned by him, to Alpha Talent. On 5 June, 2004, Alpha Talent adopted the Employee Share Purchase Scheme. The 35,250,000 Shares transferred to Alpha Talent represented approximately 4.7% of the issued share capital of the Company immediately prior to the Listing or 3.575% of the issued share capital of the Company as enlarged by the Share Offer (assuming the Over-allotment Option is not exercised).

A summary of the principal terms of the Employee Share Purchase Scheme is as follows:

(a) Objectives of the Employee Share Purchase Scheme

The objective of the Employee Share Purchase Scheme is to provide for the grant of rights to purchase Shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key employees of the Group, who in the opinion of the Mr. Li Ning in consultation with others, have contributed or will contribute to the achievement of the economic objectives of the Group.

(b) How the Employee Share Purchase Scheme operates

The Employee Share Purchase Scheme shall be valid and effective for a period of 10 years from 5 June, 2004. It shall be administered by a committee established by the board of directors of Alpha Talent. The committee shall comprise three members, with two members to be nominated and appointed by Mr. Li Ning (who may nominate himself as a member). The committee shall have absolute authority to determine, among other things, the key employees of the Group who shall be selected to receive options under the Employee Share Purchase Scheme, the exercise price, the terms and conditions of the options and such other restrictions and conditions which an option may be subject.

An option to be granted under the Employee Share Purchase Scheme may be for a period to be notified by the Committee to the key employees. An option may be exercised by the grantee of the option at any time before its expiry and that subject to certain exceptions, an option will lapse upon the grantee of the option (i) ceases to be an employee of the Group for any reason other than death; (ii) dies before exercising the option; (iii) upon a change in control of the Company; (iv) a general offer by way of a scheme of arrangement is made to the holders of the Shareholders of the Company; (v) upon the voluntary winding up of the Company. An option will also lapse if the grantee ceases to be an employee of any member of the Group by reason of summary dismissal, any breach of confidentiality or non-competition agreement or upon his or her conviction of any criminal offence.

Lapsed or cancelled options shall be re-granted by Alpha Talent in accordance with the terms of the Employee Share Purchase Scheme until all Shares held by Alpha Talent have been purchased pursuant to the Employee Share Purchase Scheme.

(c) Termination, suspension or alteration of the Scheme

The Employee Share Purchase Scheme may at any time be terminated, suspended or altered in any respect by Alpha Talent. No suspension, alteration or termination shall affect any outstanding options without the consent of the grantee affected thereby.

(d) Outstanding options granted

As at the date of this prospectus, options to purchase for 25,230,000 Shares in aggregate (representing about 2.6% of the enlarged issued share capital of the Company immediately upon completion of the Share Offer and assuming the Over-allotment Option is not exercised or 71.6% of the total number of 35,250,000 Shares held by Alpha Talent) have been granted by Alpha Talent under the Employee Share Purchase Scheme. The options granted under the Employee Share Purchase Scheme are identical (other than the options granted to Mr. Zhang Zhi Yong) subject to, among other things, the following principal terms:

- (i) the exercise price of the options granted is at 60% discount to the Offer Price and is based on the assessment by the committee (of which Mr. Li Ning is a member) of the past contributions by the individual eligible persons to the development of the Group; and
- (ii) the vesting schedule and the schedule for expiry of the lockup period are as follows:

Vesting Date	% of options
6 months from the date of listing	50%
18 months from the date of listing	50%
Expiry of lock-up	% of options
12 months from the date of listing	50%
18 months from the date of listing	25%
24 months from the date of listing	25%

The options granted to Mr. Zhang Zhi Yong under the Employee Share Purchase Scheme are subject to the following principal terms:

- (i) the exercise price of the options granted is at 80% discount to the Offer Price;
- (ii) the vesting schedule and the schedule for expiry of the lock up period are as follows:

Vesting Date	% of options
6 months from the date of listing	40%
18 months from the date of listing	30%
30 months from the date of listing	30%

Expiry of lock-up	Maximum % of options
12 months from the date of listing	20%
18 months from the date of listing	20%
30 months from the date of listing	30%
42 months from the date of listing	30%

The terms of the proposed grant to Mr. Zhang Zhi Yong are different from other proposed grantees because (1) Mr. Zhang Zhi Yong has been working for the Group since 1992 and has made significant contributions to the Group during the last several years; and (2) his remunerations during the past several years were not commensurate with his contributions to the Group. The committee of Alpha Talent therefore agrees that a greater discount to the Offer Price should be given to him to compensate him, on the condition that the Shares, upon exercise of such options, should be subject to a longer lock-up period, as mentioned above.

Particulars of the options that have been granted to the grantees under the Employee Share Purchase Scheme are set forth below:

Name of grantee	Position	Number of Shares subject to options	% to total issued share capital
Zhang Zhi Yong	Chief Executive Officer and Executive Director	9,750,000	0.975%
Tan Wee Seng	Chief Financial Officer and Executive Director	2,700,000	0.27%
Chen Yi Hong	Executive Director	750,000	0.075%
Qin Da Zhong	General Manager, Beijing Dong Xiang	1,125,000	0.112%
Wang Jiu Hua	Chief Financial Officer, Beijing Li Ning	600,000	0.06%
Guo Jian Xin	Manufacturing Director, Beijing Li Ning	1,500,000	0.15%
Wang Li	Operations Director, Beijing Li Ning	750,000	0.075%
Xu Wei Jun	Assistant to General Manager, Beijing Li Ning	1,125,000	0.112%
Zhang Xiao Yan	Product Director, Beijing Li Ning	375,000	0.037%
Wu Xian Yong	Marketing Director, Beijing Li Ning	375,000	0.037%
Zhang Xiang Du	Assistant to Chairman	600,000	0.06%
Sun Ming	Assistant to Chairman	600,000	0.06%
Zhang Jian Hua	Investment and Project Manager, Shanghai Li Ning	1,125,000	0.112%
Yin Lei	Finance Manager, Shanghai Li Ning	112,500	0.011%
Dai Qian	Human Resources Manager, Beijing Li Ning	187,500	0.019%
Du Dao Li	Finance Manager, Beijing Li Ning	225,000	0.022%
Wang Xin Feng	Product Manager, Beijing Li Ning	165,000	0.016%
Fu Jun Yan	Quality Control Manager, Beijing Li Ning	165,000	0.016%
Hu Nan	Sales Manager, Beijing Li Ning	600,000	0.06%
Hong Yu Ru	Equipment Manager, Beijing Li Ning	300,000	0.03%
Liu Ning	Golf Manager, Beijing Li Ning	300,000	0.03%
Zhang Yuan	Sales Manager, Beijing Li Ning	225,000	0.022%
Chen Bo	Supplies Manager, Beijing Li Ning	127,500	0.013%
Tian Xiao Peng	Secretary to Chairman	112,500	0.011%
Huang Tao	Marketing Department, Manager, Beijing Li Ning	225,000	0.022%
Dong Jun	Footwear Technology Department, Manager, Beijing Li Ning	225,000	0.022%
Chen Li Ren	Footwear Production Quality Controller, Beijing Li Ning	165,000	0.016%
Chen Bing Zheng	Logistics Supervisor, Beijing Li Ning	165,000	0.016%
Wang Xiao Kui	Senior Quality Controller, Beijing Li Ning	165,000	0.016%
Shi Da Yong	Regional Manager, Northwest Region, Beijing Li Ning	165,000	0.016%
Tang Zhi Jun	Human Resources Administrator, Beijing Li Ning	225,000	0.022%
		<u>25,230,000</u>	<u>2.56%</u>

Options for the balance of 28.4% (representing 10,020,000 Shares) will be granted by Alpha Talent after the listing of the Shares on the Main Board. No options will be granted by Alpha Talent under the Employee Share Purchase Scheme in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders and the Other Founding Shareholders is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares on the Main Board first commence (the “First Six-Month Period”) and there is currently no plan to grant the remaining options for Shares held by Alpha Talent within the First Six-Month Period. All grantees have undertaken to Alpha Talent to comply with the vesting schedule and lock-up the shares purchased (if any) upon the exercise of the options for a period of 12 months from the date of the Listing. All remaining options to be granted will be subject to the same time frame for vesting and expiry of lock-up as disclosed herein, except that the date of vesting and expiry of the lock-up will be counted from the date of the grant.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive has any interest and short positions in the shares or debentures of the Company or any associated corporation (within the meaning of Part XV of SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, in each case once the Shares are listed;
- (b) save as disclosed in the paragraph headed “Particulars of the Directors’ service contracts” above, there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any of our members;
- (c) none of the Directors or the experts named in the paragraph headed “Consents of experts” in this appendix has an direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any of our members, or are proposed to be acquired or disposed of by or leased to any of our members;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to our business taken as a whole;
- (e) taking no account of Shares which may be taken up under the Share Offer, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will immediately following completion of the Share Offer be interested, directly or indirectly, in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of the member of the Company; and

- (f) none of the experts named in the paragraph headed “Consents of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our members.

D. SHARE OPTION SCHEME

1. Summary of terms

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to provide incentives to 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.

The Share Option Scheme provides that the Company, in granting the options, may specify applicable terms and conditions which must be satisfied before options can be exercised by the options holders. The terms and conditions may include, amongst others, a minimum holding period and performance conditions. In addition, the basis for the determination of the exercise price of the options has been set out in the Share Option Scheme. The Board considers that the aforesaid criteria and the terms of the Share Option Scheme will serve to preserve the value of the Company and encourage option holders to acquire proprietary interests in the Company.

(b) Who may join

The Board may grant (subject to acceptance in accordance with the terms of the Share Option Scheme) an option to subscribe for such number of Shares as it may determine at a price determined in accordance with paragraph (d) below to any individual being an employee, officer, agent, consultant or representative of any member of the Group (including any executive or non-executive director of any member of the Group) who, the Board may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his performance and/or years of service, or is regarded as valuable human resources of the Group based on his work experience, knowledge in the industry and other relevant factors (a “Participant”), subject to such conditions as the Board may think fit, provided that no grants shall be made except to such number of Participants and in such circumstances that: the Company will not be required under applicable securities laws and regulations to issue a prospectus or other offer document in respect thereof; and will not result in the breach by the Company or its directors of any applicable securities laws and regulations or in any filing or other requirements arising.

(c) Payment on acceptance of option

HK\$1.00 is payable by the Participant who accepts the grant of an option in accordance with the terms of the Share Option Scheme (the “Grantee”) on acceptance of the grant of an option.

(d) *Subscription price*

The subscription price for the Shares under the options to be granted under the Share Option Scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the Shares.

(e) *Maximum number of Shares subject to the Share Option Scheme*

The limit on the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of any member of the Group must not exceed 30% of the number of issued Shares from time to time. Options lapsed or cancelled in accordance with the terms of the relevant share option scheme shall not be counted for the purpose of calculating the 30%-limit.

In addition, subject as provided below in this paragraph (e), the total number of Shares 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 expected date of commencement of the listing of the Shares on the Stock Exchange (the "Scheme Mandate Limit"). Therefore, it is expected that the Company may grant options in respect of up to 98,606,200 Shares (or such numbers of shares as shall result from a sub-division or a consolidation of such 98,606,200 Shares from time to time) to Participants under the Share Option Scheme. Options lapsed in accordance with the terms of the relevant share option scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may refresh the Scheme Mandate Limit (or further refresh a refreshed Scheme Mandate Limit) at any time, subject to prior Shareholders' approval given at a general meeting of the Company in accordance with the relevant provisions of the Listing Rules, provided that the maximum number of Shares which may be issued under options to be granted under the Share Option Scheme (when aggregated with any Shares which may be issued under options to be granted under any other share option scheme(s) of any member of the Group) under the limit as refreshed must not exceed 10% of the number of issued Shares as at the date of the approval of the refreshed limit, any options previously granted under the Share Option Scheme or any other share option scheme(s) of any member of the Group (including those outstanding, cancelled or lapsed or exercised options) will not be counted for the purpose of calculating the limit as refreshed. The Company may also seek separate approval from the Shareholders in general meeting in accordance with the relevant provisions of the Listing Rules for granting options beyond the Scheme Mandate Limit (or refreshed Scheme Mandate Limit) to such Participants, in respect of such number of Shares and on such terms as may be specified in such approval.

The total number of Shares 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 in issue. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Participant and his associated (as defined in the Listing Rules) abstaining from voting.

The numbers and terms (including the exercise price) of options to be granted to such Participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Participant shall be taken as at the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Participant an offer document in such form as the Board may time to time determine.

(f) Exercise of option

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 Board to each Grantee, which must not be more than 10 years from the date of the grant (subject to acceptance) of the option.

The right to exercise an option is not subject to or conditional upon the achievement of any performance target.

(g) Rights are personal to Grantee

An option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or purport to do any of the foregoing. Any breach of the foregoing shall entitle the Company to cancel any outstanding option, or any part thereof, in favour of such Grantee.

(h) Rights on ceasing employment or other engagement

If the Grantee ceases to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group for any reason other than death, misconduct or certain other grounds specified in the Share Option Scheme, then, if the option period has not at the date of cessation commenced, the option shall lapse; and if the option period has commenced, the Grantee may exercise the option up to his entitlement at the date of cessation (to the extent not already exercised) until whichever is the earlier of the date of expiry of the option period or the last day of the period of 6 months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual day of employment, office, agency, consultancy or representation with the relevant member of the Group whether payment in lieu of notice is made or not (if applicable).

For the purposes of this paragraph (h), a Grantee shall not be regarded as ceasing to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group if he ceases to hold a position of employment, office, agency, consultancy or representation with a particular member of the Group but at the same time takes up a different position of employment, office, agency, consultancy or representation with another member of the Group.

(i) *Rights on death*

If the Grantee dies before exercising the option in full and none of certain events which would be a ground for termination of his employment, office, agency, consultancy or representation specified in the Share Option Scheme arises, his legal personal representative(s) shall be entitled until whichever is the earlier of the date of expiry of the option period or the last day of the period of 6 months from the date of death (or such longer period as the Board may determine) to exercise the option (to the extent not already exercised) in full or to the extent specified in the notice to exercise such option.

(j) *Rights on takeover*

If a general offer to acquire Shares (whether by takeover offer, merger, privatisation proposal by scheme of arrangement between the Company and its members or otherwise in like manner) is made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Grantee (or his legal personal representatives) shall, even though the option period has not yet commenced be entitled to exercise the option (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the option period or the last day of the period of 21 days after the date on which the offer becomes or is declared unconditional, after which the option shall lapse.

(k) *Rights on winding up*

If a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(l) *Effects of alterations to capital*

Subject to the limits on the number of Shares subject to the Share Option Scheme described in paragraph (e) above, in the event of any rights issue, consolidation, sub-division or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction), such corresponding adjustments (if any) will be made to the number of Shares subject to the Share Option Scheme, the number of Shares subject to outstanding options, the subscription price in relation to each outstanding option and/or the method of exercise of the options, provided that no adjustment shall be made to the extent that the effect of such adjustment would be to enable a Share to be issued at less than its nominal value or which would give a Grantee a different proportion of the issued share capital

of the Company as to which he was previously entitled. In respect of any adjustment required by the foregoing provisions, other than any made on an independent financial adviser or the auditors for the time being of the Company must also confirm to the Board in writing that the adjustments satisfy the foregoing provision.

(m) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) subject as provided in paragraph (i) above, the expiry of the option period;
- (ii) the expiry of any of the other periods referred to in paragraphs (h), (i) or (j) above;
- (iii) subject to paragraph (k) above, the earliest of the close of business on the fifth business day prior to the general meeting referred to in paragraph (k) above or the date of commencement of the winding-up of the Company;
- (iv) save as otherwise provided in paragraph (j) above, or by the Court in relation to the scheme in question, upon the sanctioning pursuant to the Companies Law by the Grand Court of the Cayman Islands of a compromise or arrangement between the Company and its members or creditors for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies;
- (v) the date on which the Grantee ceases to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group by reason of the termination of his employment, office, agency, consultancy or representation on certain grounds specified in the Share Option Scheme including, but not limited to, misconduct, bankruptcy, insolvency, having made any arrangement or composition with his creditors and conviction of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer or principal would be entitled to terminate his employment, office, agency, consultancy or representation at common law or pursuant to applicable laws or under the Grantee's contract, agreement or arrangement with the relevant member of the Group;
- (vi) the date on which the Grantee ceases to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group for any reason other than death if the option period has not then commenced and for these purposes the date of cessation shall be the last actual day of employment, office, agency, consultancy or representation with the relevant member of the Group whether payment in lieu of notice is made or not (if applicable); or

- (vii) the date on which the Board exercises the Company's right to cancel the option because of a breach by the Grantee of the rules summarized in paragraph (g) above.

(n) *Ranking and voting rights of Shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Company's articles and will rank *pari passu* with the fully paid Shares in issue on the date of allotment or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment, or, if later, before the date of registration of the allotment in the register of members of the Company.

A Share issued upon the exercise of an option shall not carry any voting rights until the registration of the Grantee (or any other person) as the holder thereof.

(o) *Cancellation of options*

The Board may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant Grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation.

Where the Company cancels any options granted but not exercised and grants new options, the grant of such new options may only be made under the Share Option Scheme if there is available unissued options (excluding the cancelled options) within each of the 10% limits as referred to in paragraph (e) above.

(p) *Alteration to the Share Option Scheme*

The terms of the Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters contained in Rule 17.03 of the Listing Rules shall not be altered to the advantage of Participants unless with the prior sanction of a resolution of the Shareholders in general meeting.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must first be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must first be approved by the Shareholders in general meeting and (if required under the Listing Rules) by the shareholders of the Holding Company in general meeting.

(q) *Termination of the Share Option Scheme*

The Company by resolution of its shareholders in general meeting or of the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be granted or accepted but the provisions of the Share Option Scheme shall remain in force in all other respects. All options granted and accepted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

(r) *Period of the Share Option Scheme*

Subject to termination as referred to in paragraph (q) above, the Share Option Scheme shall be valid and effective for a period of ten years commencing on 5 June, 2004 (being the date of approval of the Share Option Scheme by the Shareholders) (after which period no further options will be granted or accepted); and thereafter for so long as there are outstanding any unexercised options granted and accepted pursuant thereto prior to the expiration of the said ten-year period and in order to give effect to the exercise of any such options or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

(s) *Conditions*

The Share Option Scheme is conditional upon, amongst others, the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares to be issued pursuant to the exercise of options under the Share Option Scheme, and the commencement of the listing of the Shares on the Stock Exchange.

(t) *Restrictions on the timing of grant of option*

A grant of options may not be made after a price sensitive event or a price sensitive matter in relation to the securities of the Company has been the subject of a decision, until such price sensitive information has been published in the newspapers. In particular, no option may be granted within the period commencing one month immediately preceding the earlier of: (i) the date of the Board meeting for the approval of the Company's interim or annual results; and (ii) the deadline for the Company to publish its interim or annual results announcement, and ending on the date of the results announcement.

(u) *Grant of options to connected persons*

Where any grant of options is proposed to be made to a Participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, such grant must first be approved by all the independent non-executive directors of the Company (excluding any independent non-executive director who is the proposed Grantee of the options).

If the grant of options is to be made to a Participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the Shares issued and to be issued upon exercise of: all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any

other scheme(s) of any member of the Group in the 12-month period up to and including the proposed date of the grant (subject to acceptance) of the options: (i) representing in aggregate over 0.1% of the number of Shares then in issue; and (ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on each relevant date of the grant (subject to acceptance) of the options, in excess of HK\$5 million, then such grant of options must first be approved by the Shareholders in general meeting, with all the connected persons of the Company abstaining from voting on the proposed grant (except that any such connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular required to be issued pursuant to the Listing Rules). Any vote taken at the meeting to approve the proposed grant of such options must be taken on a poll. In addition, any proposed change in the terms of options granted to a Participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, must first be approved by the Shareholders in general meeting on a similar basis (as to abstention and voting by poll) as stated above.

E. PRE-IPO SHARE OPTION SCHEME

1. Summary of terms

The Company has adopted the Pre-IPO Share Option Scheme. The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and recognise the contribution of, and to provide an incentive to, the full-time employees of the Company and its subsidiaries including executive and non-executive Directors who, in the sole discretion of the Board, has contributed or will contribute to the Company. The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by a written resolution of the sole shareholder of the Company dated 5 June, 2004, are basically the same as the terms of the Share Option Scheme except that:

- (a) the exercise price per Share shall be at 15% discount to the Offer Price. RMB1 is payable by the grantee who accepts the grant of an option. The option period of all options granted does not exceed 10 years;
- (b) the definition of the "Eligible Persons" means any full time or part-time employee of the Company or any subsidiary, including executive, non-executive and independent non-executive Directors of the Company or any subsidiary;
- (c) the total number of Shares subject to the Pre-IPO Share Option Scheme is 16,219,000 Shares and there are no similar requirements to be complied with on granting of options to connected persons as summarised in paragraph (u) of the paragraph headed "Share Option Scheme" above; and
- (d) save for the options which have been conditionally granted, no further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme upon the listing of the Shares on the Stock Exchange.

Each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise all of the options so granted to him/her at any time after the expiry of 12 months from the date on which the options are granted but no later than six years from such date of grant. All options were conditionally granted to the grantees on 5 June, 2004.

An application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

2. Outstanding options granted

As at the date of this prospectus, options to subscribe for 16,219,000 Shares in aggregate (representing about 1.64% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and assuming no exercise of the Over-allotment Option) at an exercise price equivalent to 15% discount to the Offer Price, have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. The Directors consider that a slight discount of 15% to the Offer Price is necessary in order to give the intended incentives to the grantees. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to the long term growth and profitability of the Group. A total of 190 employees including 2 Directors and 12 members of the senior management (set out in the section headed “Directors, Senior Management and Staff” of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

Particulars of the options that have been conditionally granted to the grantees who may acquire Shares under the Pre-IPO Share Option Scheme if the options are exercised in full, are set out below:

Name of grantee	Position held	Address	No. of shares subject to options	% to Shares in issue after completion of Share Offer
<i>Directors</i>				
Zhang Zhi Yong	Chief Executive Officer and Executive Director	Room 3508, Xiang Shan Yi Shu, 88 Xiang Shan Nan Lu, Beijing, PRC	1,597,000	0.162%
Tan Wee Seng	Chief Financial Officer and Executive Director	8D Wing Yip Building, 121-123 Chatham Road, Tsimshatsui, Hong Kong	1,287,000	0.130%
<i>Senior Management</i>				
Qin Da Zhong	General Manager, Beijing Dong Xiang	29-1-201 Wan Quan Xin Xin Jia Yuan, Ba Gou Village, Haidian District, Beijing, PRC	408,000	0.041%

Name of grantee	Position held	Address	No. of shares subject to options	% to Shares in issue after completion of Share Offer
Wu Xian Yong	Marketing Director, Beijing Li Ning	3-301, Block 17, Fang Zhuang Zi Fang Yuan, Beijing, PRC	367,000	0.037%
Zhang Xiao Yan	Product Director, Beijing Li Ning	1-204, 20th "Min" Floor A, No. 2 Jin Tai Xi Lu, Chao Yan District, Beijing, PRC	331,000	0.034%
Wang Jiu Hua	Financial Controller, Beijing Li Ning	No. 3B Chong Wen Men Wai, Level 12, North Tower, Xin Shi Jie Zhong Xin, Beijing, PRC	320,000	0.032%
Guo Jian Xin	Manufacturing Director, Beijing Li Ning	23-705 Qing Jia Yuan, Hai Dian District, Beijing, PRC	320,000	0.032%
Wang Li	Director of Operations	No. 1008, Block No. 2, Chong Wen Men Hua Shi Zao Yuan, Beijing, PRC	275,000	0.028%
Xu Wei Jun	Assistant to General Manager, Beijing Li Ning	4-401, Block No. 42, Xing Long Jia Yuan, Chao Yang District, Beijing, PRC	205,000	0.021%
Liang Yong Gen	Associate General Manager, Guangdong Li Ning	No. 37, Hongqi Avenue, Xinan Town, Sanshui, Guangdong, PRC	160,000	0.016%
Wang Zhi Guo	Sales Director, Beijing Dong Xiang	Room C-2002, Jing Mao International Suite, 16 Ba Li Qiao Nan Street, Tong Zhou District, Beijing, PRC	120,000	0.012%
Zhong Hua	Production Director, Beijing Dong Xiang	No. 211, Unit 2, 306 Floor, Hui Zhong Li Xiao District, Chaoyang District, Beijing, PRC	120,000	0.012%
Cheng Jun Jie	Strategy Development Manager, Shanghai Li Ning	Room 701, No. 32, 648 Nong, Cheng Shan Lu, Pudong, Shanghai, PRC	98,000	0.010%

Name of grantee	Position held	Address	No. of shares subject to options	% to Shares in issue after completion of Share Offer
Zhang Jian Hua	Investment and Project Manager, Shanghai Li Ning	Room 902, No. 2, No. 600 Di Wu Da Dao, Yu Shan Lu, Pudong, Shanghai, PRC	95,000	0.010%
<i>Employees who have been granted options to subscribe for more than 120,000 shares</i>				
Ye Xue Feng	Sales Director, Beijing Li Ning	No. 3B Chong Wen Men Wai, Level 12, North Tower Xin Shi Jie Zhong Xin Beijing, PRC	367,000	0.0037%
Zhuo Yue Ting	Product Design Manager	No. 3B Chong Wen Men Wai, Level 12, North Tower, Xin Shi Jie Zhong Xin, Beijing, PRC	300,000	0.030%
Sun Ming	Assistant to Chairman	409, 4 Dan Yuan, 5th Floor, Xi Luo Yuan Nan Lane, Feng Tai District, Beijing, PRC	193,000	0.020%
Zhang Xiang Du	Assistant to Chairman	302, 2nd Gate, Block No. 51, East Lane, Xi Bei Hei, Chao Yang District, Beijing, PRC	193,000	0.020%
Huang Tao	Manager, Marketing Channels	301, 1 Dan Yuan, Block No. 5, Zhi Chun Lu, Jin Qiu Jia Yuan, Hai Dian District, Beijing	192,000	0.019%
Zhang Yuan	North Sales Area Manager	16-2-8, No. A2, Wanshou Temple, Hai Dian District, Beijing, PRC	178,000	0.018%
Hu Nan	South Sales Area Manager	3-1606# No. 9 Zifang Road, Chaoyang District, Beijing, PRC	178,000	0.018%
Zang Ke Jian	Directly-Managed Sales Area Manager	8-2-202, Shichengbaili, Yizhuang Economic Development Zone, Daxing County, Beijing, PRC	178,000	0.018%

Name of grantee	Position held	Address	No. of shares subject to options	% to Shares in issue after completion of Share Offer
Hong Yu Ru	Equipment Manager	Room 101, Unit 2, No. 31 Building, Wanliuwanquan Xinxin Jiayuan, Hai Dian District, Beijing, PRC	172,000	0.017%
Du Dao Li	Financial and Accounting Manager	Room 601, No. 1 Building, Area 6, Huilong Guanlong Jingyuan, Changping District, Beijing, PRC	150,000	0.015%
Dai Qian	Human Resources/ Administration Manager	Room 701, Gate 2, No. 10 Building, Xijing Jiayuan, Chongwen District, Beijing, PRC	150,000	0.015%
Zhang Hui	Strategic Development Manager	Room 601, Gate 1, No. 43 Building, East Area 1, Tiantongyuan, Changping District, Beijing, PRC	150,000	0.015%
Pang Hong	IT Manager	22-101, Unit 3, Yuhaiyuan, Hai Dian District, Beijing, PRC	150,000	0.015%
Liu Ning	Golf Manager	9E, No. 1 Building, Wanguocheng, Dongcheng District, Beijing, PRC	150,000	0.015%
Dong Jun	Footwear Technology Manager	Room 805, Zhaohuige, Houhui Square, Huangyuan Road, Chancheng District, Foshan, Guangdong, PRC	130,000	0.013%
Shi Da Yong	Northeast China Area Manager	No. 225, Minzhu Road, Heping District, Shenyang, PRC	128,000	0.013%
Wang Xue Jun	Northeast China Executive Manager	Room 1605, No. 3 Building, City Impress Housing, No. 19 South San Huan Road, Fengtai District, Beijing, PRC	128,000	0.013%
Sun Ying	North China Manager	Room 103, Gate 1, No. 21 Wenhuiyuan, Hai Dian District, Beijing, PRC	128,000	0.013%
Yang Hai Wei	East China Manager	No. 14, Jiti Avenue West, Beijing Material Management Office, Weapons Department, Tongzhou District, Beijing, PRC	128,000	0.013%

Name of grantee	Position held	Address	No. of shares subject to options	% to Shares in issue after completion of Share Offer
Zhang Xin Yu	South China Manager	B-11-B, No. 10, Jiadi Road North, Fengtai District, Beijing, PRC	128,000	0.013%
Zeng Yong	Southwest China Manager	Level 6, No. 33 Building, Worker Village, Zhangjia Lane, Chengdu, PRC	128,000	0.013%
Ren Yi	Central China Manager	Room 501, Gate 1, No. 40 Building, Shijingshan District, Beijing, PRC	128,000	0.013%
			9,430,000	0.95%
Other employees (Note 1)			6,789,000	0.69%
			16,219,000	1.64%

Note 1: These are employees (excluding grantees who are members of the senior management as set out in the section headed “Directors, Senior Management and Staff” in this prospectus) who have been conditionally granted options to subscribe for 120,000 Shares or less per grantee. There are 154 such grantees who have been conditionally granted with options to subscribe an aggregate of 6,789,000 Shares, representing approximately 0.69% of the issued share capital of the Company immediately after completion of the Share Offer (assuming that the Over-allotment Option is not exercised), with the range of options granted with the lowest of 6,000 Shares to the highest of 109,000 Shares of the issued share capital of the Company immediately after completion of the Share Offer (assuming that the Over-allotment Option is not exercised).

Exercise of the any of the above outstanding options will have a dilution effect on the shareholdings of the Shareholders at the time of such exercise of options as well as on the earnings/loss per Share for the relevant financial year of the Group. Assuming that all the above outstanding options were exercised in full on 1 January, 2003 resulting in the issuance of 16,219,000 additional Shares, the earnings per Shares as at 31 December, 2003, based on a total of 766,219,000 Shares in issue, would have been diluted by approximately 2.2% from RMB12.53 cents to RMB12.26 cents. Save for the above, no further options will be offered under the Pre-IPO Share Option Scheme. Assuming that all the outstanding options offered under the Pre-IPO Share Option Scheme were exercised in full on the date of listing of the Shares on the Main Board, the shareholding interests of the public would be reduced from approximately 25.0% to approximately 24.6% of the issued share capital of our Company (assuming the Over-allotment Option is not exercised and takes no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted

under the Share Option Scheme). The Directors will not exercise any options if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

The SFC has granted to the Company an exemption from full compliance with the disclosure of paragraph 10(d) of the Third Schedule to the Companies Ordinance in relation to certain particulars of options granted under the Pre-IPO Share Option Scheme, details of which are stated in paragraph F of this Appendix.

F. WAIVERS FROM THE COMPANIES ORDINANCE AND THE LISTING RULES

The following provisions of the Companies Ordinance and the Listing Rules are applicable to the Company:

1. Companies Ordinance

Paragraph 10(d) of Part I of the Third Schedule

Paragraph 10(d) of Part 1 of the Third Schedule to the Companies Ordinance requires a listed issuer to disclose the number, description and amount of any shares in the listed issuer which any person has, or is entitled to be given, an option to subscribe for the shares of the listed issuer, together with certain particulars of each option, namely:

- (a) the period during which it is exercisable;
- (b) the price to be paid for shares subscribed for under it;
- (c) the consideration (if any) given or to be given for it or for the right to it; and
- (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders as such, the relevant shares.

2. Listing Rules

- (a) Paragraph 27 of Appendix 1A of the Listing Rules

Paragraph 27 of Appendix 1A of the Listing Rules requires a listed issuer to disclose particulars of any capital of any member of the group which is under option, or agreed conditionally or conditionally to be put under option, including the consideration for which the option was or will be given and the price and the duration of the option, and the name and address of the grantee, or an appropriate negative statement.

- (b) Rule 5.06 and PN 16 of the Listing Rules

Rule 5.06 of the Listing Rules requires all valuation report to contain certain information as specified by that rule. PN 16 of the Listing Rules requires where valuation of the interests in land as determined by an independent valuer is zero, a summary of all the interests in land and buildings is required to be included in the listing document.

The Company has applied to and has been granted waivers by the SFC and the Stock Exchange waivers from strict compliance with the relevant provisions of the Companies Ordinance and the Listing Rules as follows:

1. Pre-IPO Share Option Scheme

The Company has applied to the SFC and the Stock Exchange from strict compliance with the disclosure requirements of paragraphs 10(d) of Part I of the Third Schedule to the Companies Ordinance and paragraph 27 of Appendix 1A of the Listing Rules on the ground that full compliance with these requirements would be irrelevant and unduly burdensome for the Company. The SFC and the Stock Exchange have granted waivers to the Company from strict compliance with the relevant requirements, subject to the following conditions:

- (a) Full details of the following options complying with all the particulars required under paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance and paragraph 27 of Appendix 1A of the Listing Rules shall be disclosed in the prospectus:
 - (i) options conditionally granted to the Directors and members of the senior management of the Company and subsidiaries as disclosed in the prospectus; and
 - (ii) options conditionally granted to the grantees entitling them to subscribe more than 120,000 Shares;
- (b) Grantees with options to subscribe for 120,000 Shares or less shall be added up and disclosed in the prospectus as “Other employees” with disclosure of their aggregate number of options entitled only; and
- (c) A full list of all the grantees (including the persons referred to in paragraphs (a) and (b) above) who have been conditionally granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10(d) of Part I of the Third Schedule of the Companies Ordinance and paragraph 27 of Appendix 1A of the Listing Rules, shall be made available for inspection by the public as one of the documents available for inspection.

Save as disclosed above, no options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme.

2. Valuation Report

The valuation report on the property interests of the Group only includes a statement that the Group has leased 161 properties and does not provide the address and particulars of the lease of each of the listed properties. The reasons for the application are:

- (a) since there are a total of 161 leased premises, all having no commercial value as at the date of the valuation, it would not be of great relevance to the general public to set forth their full addresses individually in the Valuation Report; and
- (b) as the Group is not engaged in property business, the inclusion in the Prospectus of detailed description of the Group's interests in leased properties would be of little relevance to potential investors in the Company.

The Stock Exchange has granted a waiver to the Company from strict compliance with the relevant provisions of the Listing Rules (i) our making available for inspection the full valuation report complying with the requirements of Rule 5.06(1) of the Listing Rules; (ii) the disclosure of a summary of the particular leased properties (e.g. description and tenure, occupancy and capital value of that properties) in the property valuation report included in this prospectus; and (iii) the confirmation in compliance with paragraph 3(b) of Practice Note 16 of the Listing Rules provided that a valuation report containing full addresses and particulars of the listed properties shall be made available for inspection by the public.

G. OTHER INFORMATION**1. Indemnity**

By a deed of indemnity dated 14 June, 2004 (being material contract (m) referred to in the paragraph headed “Summary of material contracts” in this Appendix) (“Deed of Indemnity”), each of Victory Mind Assets, Champion Link, Mr. Li Ning and Mr. Li Chun (together, the “Indemnifiers”) has given joint and several indemnities in favour of the Company and its subsidiaries in respect of, among other things:

- (1) any tax liabilities including, without limitation, estate duty which may be payable by any of the Company and/or any of its subsidiaries on or before the date on which dealings in the Shares on the Main Board first commence (“Effective Date”);

except such indemnities do not cover certain circumstances including:

- (a) to the extent that provision has been made for such taxation in the audited combined accounts of the Company or the audited accounts of relevant member of the Group for the three years ended 31 December, 2003;
 - (b) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of the Group voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business before the Effective Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date;
 - (c) to the extent that such taxation or liability is discharged by another person and that no member of the Group is required to reimburse such person in respect of the discharge of the taxation or liability; or
 - (d) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or the tax authorities of the PRC or any other authority in any part of the world coming into effect after the Effective Date or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;
- (2) any costs or expenses reasonably arising from the relocation of the business or assets from any property leased, rented, occupied or used by any member of the Group as at the date of this prospectus in the event any member of the Group is not being permitted to use or occupy or being evicted from any such property (excluding property owned by any member of the Group) it uses or occupies and all operating and business losses which the relevant member of the Group may suffer arising from the relocation of its business or assets from the affected property; and

- (3) all damages, losses, claims, fines, penalties to be imposed, fees, costs, expenses (including all legal costs and expenses), actions, proceedings, depletion of assets, loss of profit, cost of rectification, costs of removal, loss of business, costs of reinstatement of Property and any other liability of whatever nature (“Damages, Losses and Liabilities”) arising out of or in connection with any product and other liability claim or third party claim or claim of a similar nature in respect of any liability, cost and expenses incurred as a result of the Group’s business operation prior to the date when the Shares are first traded on the Main Board (the “Effective Date”), including, without limitation, those arising from (i) death, personal injury or damage to property caused by a defective product or defective services sold, supplied or provided by any member of the Group; (ii) the holding of expired licences or permits for the operation of concessions or retail stores or operating without holding such requisite licences or permits; (iii) the failure to comply with all relevant regulatory requirements relating to the retirement contribution for its employees and/or non-payment thereof; and (iv) the possible infringement of any third parties’ intellectual property rights, to the extent that such Damages, Losses and Liabilities occurred prior to the Effective Date and any such Damages, Losses and Liabilities are not paid by the insurer under any relevant insurance policy (if any).

The Directors have been advised that no material liability for estate duty is likely to fall on any of the Company’s subsidiaries.

2. Litigation

As at the Latest Practicable Date, none of our members is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any of our members.

3. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

4. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$3,500 and are payable by the Company.

5. Promoters

The promoter of the Company is Mr. Li Ning. No amount or benefit has been paid or given to the promoter in connection with the Share Offer or related transactions described in this prospectus within the two years preceding the date of this prospectus.

6. Consents of experts

DBS Asia, PricewaterhouseCoopers, Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and King & Wood have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation certificates, letters, or opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they are respectively included.

Name	Qualification
DBS Asia	a deemed licensed corporation under SFO
PricewaterhouseCoopers	Certified Public Accountants
Sallmanns (Far East) Limited	chartered surveyors and valuers
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
King & Wood	registered law firm in the PRC

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Particulars of the Vendors

Certain particulars of the Vendors are as follows:

Name	Beneficial owner(s)	Description	Registered office	Number of Sale Shares
ABC Assets	Mr. Fong Shing Kwong, an Independent Third Party	Corporation	P.O. Box 659 Road Town Tortola British Virgin Islands	3,466,000
ICH	Independent Third Parties	Corporation	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies	6,988,000

Both ABC Assets and ICH became Shareholders upon completion of the Reorganisation, whereby the Company issued and allotted new Shares in favour of them in exchange for their beneficial interests in China Sports and Asia Lead, respectively. Upon

completion of the Reorganisation, ABC Assets and ICH held 3,466,000 Shares and 6,988,000 Shares, or representing approximately 0.5% and 0.9%, respectively, of the total issued share capital of the Company prior to the Share Offer. Upon completion of the Share Offer, they will not have any further interest in the Company.

9. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within the two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) there has been no material adverse change in our financial position or prospects in the last 12 months; and
 - (iv) there has not been any interruption in the business of the Group which has had a material adverse effect on the financial position of the Group in the 24 months preceding the date of this prospectus.
- (b) The Company has no founder shares, management shares or deferred shares.
- (c) The register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Ltd. and a branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to under “Consents of experts” in Appendix VI to this prospectus, the accountants’ report and a statement of adjustments made by PricewaterhouseCoopers in arriving at the figures set forth in the accountants’ report, the text of which is set forth in Appendix I to this prospectus, copies of the material contracts referred to under “Summary of material contracts” in Appendix VI to this prospectus and a statement containing the name, address and certain description of each of the Vendors.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including 2 July, 2004:

- the memorandum of association of the Company and the Articles;
- the accountants’ report prepared by PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus and the related statement of adjustments;
- the audited financial statements or audited consolidated financial statements for the companies comprising the Group for each of the three years ended 31 December, 2003 or from their respective dates of incorporation where this is a shorter period except for RealSports;
- the letter related to pro forma financial information, the texts of which are set forth in Appendix II to this prospectus;
- the letters relating to the profit forecast, the texts of which are set forth in Appendix III to this prospectus;
- the letter, summary of values and the valuation certificate prepared by Sallmanns (Far East) Limited of our property interests, the text of which is set forth in Appendix IV to this prospectus and the full valuation report prepared by Sallmanns (Far East) Limited referred to in the paragraphs headed “Properties leased by us” in the “Financial information” section of this prospectus;
- the rules of the Share Option Scheme;
- the rules of the Pre-IPO Share Option Scheme and a full list of all the grantees who have been conditionally granted options under the Pre-IPO Share Option Scheme;
- the letter of advice prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of the Cayman Islands company law;
- the Companies Law;
- the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus;
- the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix VI to this prospectus;
- the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus; and
- the statement of the name, address and description of the Vendors.