
Hit the
Target

Mr. ZHANG Zhi Yong, *Chief Executive Officer*

OVERVIEW

The sports goods industry in the PRC in 2005 continued to be driven by increasing affluence and consumption power, rapid urbanization and the positive impact of the 2008 Beijing Olympics. Under such a favourable operating environment, the Group, being one of the leading sports goods enterprises in the PRC, continued to record reasonably outstanding results in 2005 by leveraging on its competitive strengths, namely its (i) strong brand image with a distinguished market positioning; (ii) enhanced product research and development capabilities leading to a diversified product range for sports and leisure use; (iii) extensive distribution and retail network; (iv) efficient supply chain management; and (v) professional management team with proactive corporate culture.

FINANCIAL REVIEW

Key financial indicators

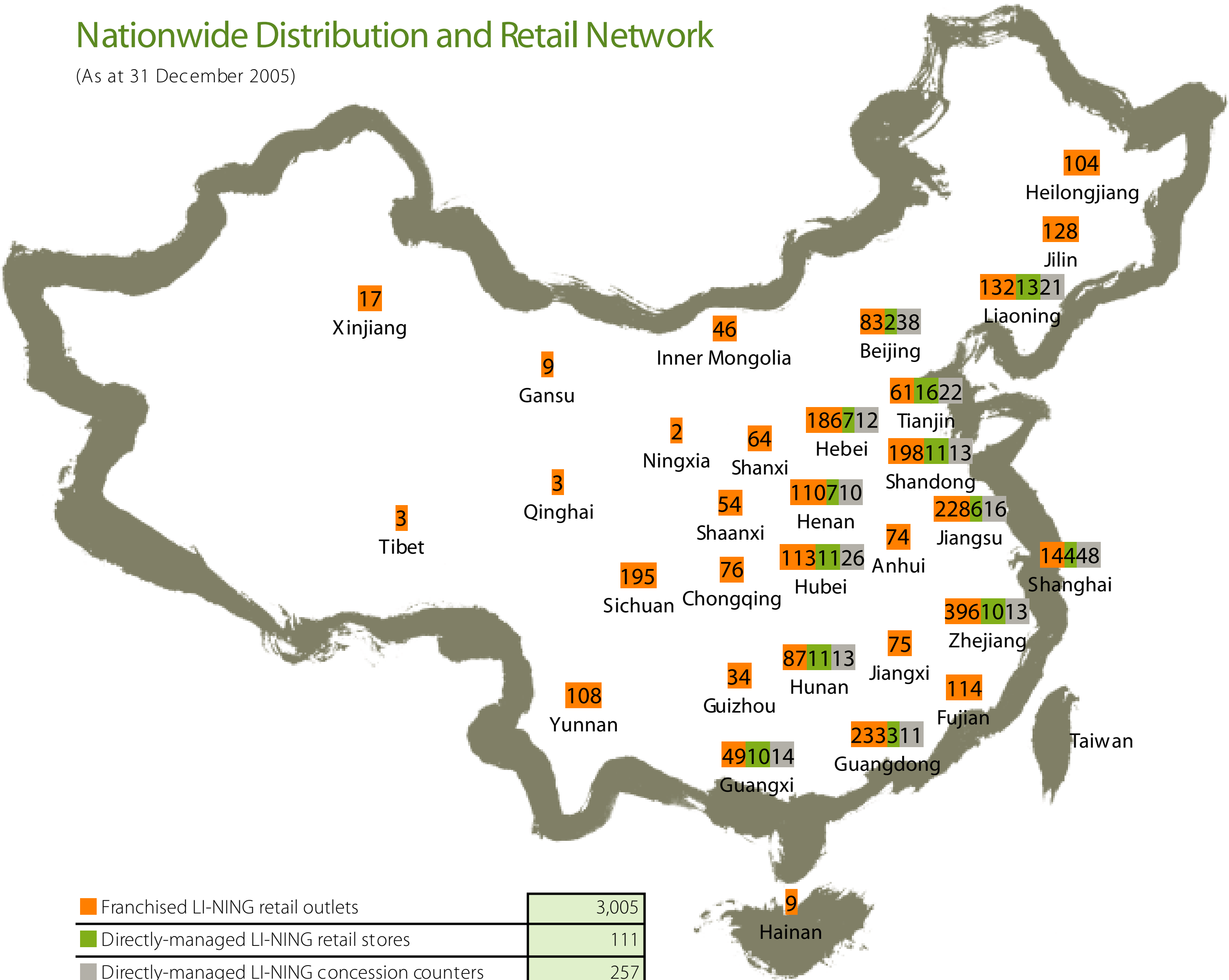
	Year ended 31 December		Year-on-year
	2005	2004 (As restated – Note 1)	**change (%)**
Items of income statement (audited)			
(Expressed in RMB'000 unless otherwise stated)			
Turnover	**2,450,536**	1,878,102	30.5
Gross profit	**1,152,545**	873,524	31.9
Operating profit	**271,497**	180,418	50.5
EBITDA (Note 2)	**296,435**	200,839	47.6
Profit attributable to equity holders	**186,800**	122,414	52.6
Basic earnings per share (RMB cents) (Note 3)	**18.25**	13.78	32.4
Selected financial ratios (audited)			
Gross profit margin (%)	**47.0**	46.5	
Operating profit margin (%)	**11.1**	9.6	
Margin of profit attributable to equity holders (%)	**7.6**	6.5	
Effective tax rate (%)	**31.1**	31.7	
Return on equity holders' equity (%)	**17.2**	17.5	
Debt to equity holders' equity ratio (Note 4)	**0.35**	0.45	
Average inventory turnover (days) (Note 5)	**86**	112	
Average accounts receivable turnover (days) (Note 6)	**44**	33	
Average trade payables turnover (days) (Note 7)	**68**	77	

Notes:

1. See note 2 to the accounts.
2. EBITDA refers to earnings before interest, tax, depreciation and amortization.
3. The calculation of basic earnings per share is based on the profit attributable to equity holders for the year ended 31 December 2005 of RMB186,800,000 (2004: RMB122,414,000) and the weighted average of 1,023,827,000 ordinary shares in issue (2004:888,392,000 shares) during the year.
4. The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December.
5. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by the cost of sales and multiplied by 365 days.
6. The calculation of average accounts receivable turnover (days) is based on the average of opening and closing balances of accounts and notes receivable divided by turnover and multiplied by 365 days.
7. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by 365 days.

Nationwide Distribution and Retail Network

(As at 31 December 2005)



Franchised LI-NING retail outlets	3,005
Directly-managed LI-NING retail stores	111
Directly-managed LI-NING concession counters	257
Total	**3,373**

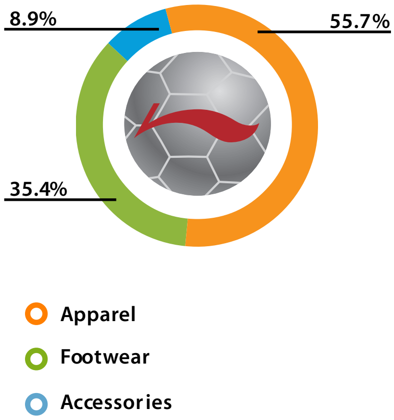
Turnover

For the year ended 31 December 2005, the Group's turnover reached RMB2,450,536,000, an increase of 30.5% as compared to 2004. The satisfactory growth was attributable to (i) distinct and well-defined brand marketing strategies; (ii) successful development of new product series catering to the needs of consumers; (iii) constant enhancement in supply chain management; and (iv) continued expansion of sales channels and network coverage.

Breakdown of turnover by product category

	Year ended 31 December				
	2005		2004		
	RMB'000	% of total turnover	RMB'000	% of total turnover	Year-on-year change (%)
Footwear	**866,697**	**35.4**	562,889	30.0	54.0
Apparel	**1,365,802**	**55.7**	1,083,130	57.7	26.1
Accessories	**218,037**	**8.9**	232,083	12.3	-6.1
Total	**2,450,536**	**100.0**	1,878,102	100.0	30.5

Percentage of turnover by product category in 2005

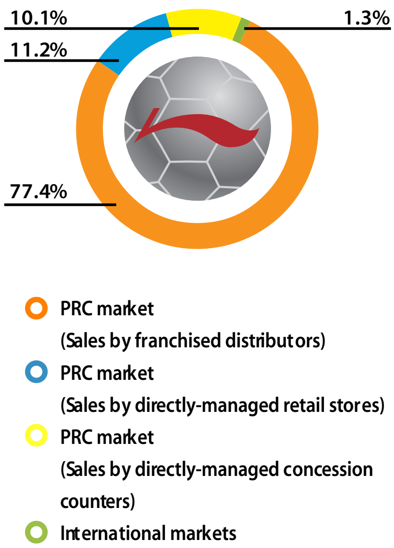


The Group continued to enrich its product portfolio with series of new products for popular sports activities, such as running, basketball, soccer, tennis and fitness. The broadened product range boosted the sales of footwear and apparel products. Significant improvements in designs, optimum pricing of key products and reinforced marketing efforts resulted in a strong growth of 54.0% in footwear sales as compared with 2004. The sales of apparel products increased by 26.1%. Sales of accessories however decreased by 6.1% as compared to 2004 due to our reduced emphasis for better retail sales efficiency.

Percentage of turnover by sales channel

	Year ended 31 December	
	2005	2004
	% of total turnover	% of total turnover
PRC market		
Sales by franchised distributors	**77.4**	75.0
Sales by directly-managed retail stores	**11.2**	10.6
Sales by directly-managed concession counters	**10.1**	12.0
International markets	**1.3**	2.4
Total	**100.0**	100.0

Percentage of turnover by sales channel in 2005



Percentage of turnover by geographical location

	Note	Year ended 31 December 2005 % of total turnover	2004 % of total turnover
LI-NING brand			
PRC market			
Beijing and Shanghai		**6.9**	9.9
Central region	1	**11.7**	12.4
Eastern region	2	**23.3**	21.9
Southern region	3	**12.8**	11.0
Southwestern region	4	**8.5**	8.2
Northern region	5	**16.4**	13.8
Northeastern region	6	**12.5**	12.5
Northwestern region	7	**1.9**	2.3
International markets		**1.3**	2.4
KAPPA brand (sold in August 2005)			
PRC market		**4.7**	5.6
Total		**100.0**	100.0

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.

The Group operates a balanced nationwide distribution network that covers all major cities of the PRC. In terms of market potential, second and third-tier cities, where the Group has a strong presence, are expected to be the mainstream markets for future growth.

Cost of sales and gross profit

For the year ended 31 December 2005, cost of sales of the Group amounted to approximately RMB1,297,991,000 (2004: RMB1,004,578,000). The overall gross profit margin in 2005 was maintained at a satisfactory level of 47.0% (2004: 46.5%). The modest margin expansion was mainly due to an optimization of our pricing strategy and enhancement in product design and research and development that enabled us to command a premium in retail price.

Gross profit margin of product categories

	Year ended 31 December	
	2005 Gross profit margin (%)	2004 Gross profit margin (%)
Overall	**47.0**	46.5
Footwear	**46.4**	43.7
Apparel	**47.3**	47.5
Accessories	**47.8**	48.7

Other income

For the year ended 31 December 2005, other income of the Group amounted to approximately RMB32,626,000 (2004: RMB17,399,000), mainly comprising government subsidies and investment gain from the disposal of a subsidiary.

Mr. TAN Wee Seng (left), *Chief Financial Officer*

Distribution and administrative expenses

For the year ended 31 December 2005, distribution expenses amounted to approximately RMB690,527,000 (2004: RMB549,771,000), mainly comprising advertising and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores, transportation and logistics expenses, sponsorship and other marketing-related expenses. Distribution expenses accounted for 28.2% of the Group's total turnover, representing a decline of 1.1% against 29.3% in 2004. The decrease was a reflection of (i) stable human resources expenses; (ii) effectively controlled store opening expenses and reduced renovation costs per square meter; and (iii) overall improvement in cost management.

Administrative expenses of approximately RMB223,147,000 (2004: RMB160,734,000) for the year ended 31 December 2005 mainly comprised staff costs, consulting expenses, office rentals, depreciation of office premises and other general expenses. Administrative expenses as a percentage of turnover increased from 8.6% in 2004 to 9.1% in 2005 as a result of the need to make provision for the non-cash stock option costs in compliance with the new IFRS 2 requirement. Excluding the non-cash share-based stock option costs adjustment, administrative expenses as a percentage of turnover represented 8.3% in 2005 against 8.2% in 2004.

Operating profit

For the year ended 31 December 2005, operating profit of the Group was RMB271,497,000, representing an increase of 50.5% from RMB180,418,000 in 2004. Operating profit margin for the year was approximately 11.1%, representing an increase of 1.5% from 2004. The increase was primarily resulted from the combined effect of a rise in gross profit margin and decrease in total distribution and administrative expenses as a percentage of total turnover of the Group.

Finance income and taxation

For the year ended 31 December 2005, the finance income of the Group amounted to RMB1,954,000 (2004: an income of RMB821,000), which was mainly due to (i) decrease in interest expenses on bank borrowings as a result of nil bank borrowings; (ii) interest income derived from the investments in relation to the cash and other financial assets of the Group; but was partially offset by (iii) the increase in exchange loss as a result of fluctuation of foreign exchange rates in the second half of the year.

For the year ended 31 December 2005, tax expenses amounted to approximately RMB85,106,000 (2004: RMB57,486,000). The effective tax rate was 31.1% (2004: 31.7%).

Profit attributable to equity holders

Profit attributable to equity holders for the year ended 31 December 2005 was approximately RMB186,800,000, an increase of 52.6% from RMB122,414,000 in 2004. Net profit margin attributable to equity holders for the year was 7.6%, representing an increase of 1.1% compared to 6.5% in 2004.

Basic earnings per share amounted to RMB18.25 cents (2004: RMB13.78 cents). Excluding the effect of the adjustments made in respect of IFRS 2 "Share-based Payment," basic earnings per share would be RMB20.94 cents (2004: RMB15.02 cents).

Provision for inventories

Inventories of the Group are stated at the lower of cost and net realizable value. In the event that net realizable value falls below cost, the difference is taken as a provision for inventories.

Accumulated provision for inventories as at 31 December 2005 and 31 December 2004 amounted to approximately RMB14,227,000 and RMB10,228,000, respectively.

Provision for doubtful debts

The Group's policy in respect of provision for doubtful debts in 2005 remained the same as that in 2004.

Accumulated provision for doubtful debts as at 31 December 2005 and 31 December 2004 amounted to approximately RMB3,716,000 and RMB10,020,000, respectively.

BUSINESS REVIEW

During the year ended 31 December 2005, the Group continued to focus on the following key development strategies: (i) reinforcing brand awareness and brand loyalty; (ii) infusing professional and trendy elements in the brand image; (iii) strengthening product design, research and development; (iv) expanding sales channels and network; (v) improving supply chain management; and (vi) embarking on a multi-brand expansion plan.

Brand promotion and sponsorships

Our brand building has been supported by a comprehensive marketing plan. In 2005, the Group implemented a multi-faceted marketing program. Through a diversity of brand building activities, the Group effectively raised its brand awareness, enhanced its brand influence and enlarged its customer loyalty.

NBA – China official marketing partner

In January 2005, Beijing Li Ning, a wholly-owned subsidiary of the Group entered into an official marketing cooperation agreement with NBA, a world-renowned sports games organizer. Pursuant to the agreement, the Group will utilize the abundant marketing experience and media resources of NBA in the PRC market to promote the LI-NING brand. Beijing Li Ning also successfully entered into an agreement with NBA player, Damon Jones in January 2006. Pursuant to the agreement, Damon Jones will wear LI-NING professional basketball shoes in his future NBA league games. This is expected to reinforce the professional image of the LI-NING brand in the basketball sector. This partnership marked a great stride for the LI-NING brand towards achieving its goal of becoming a top world-class sports goods brand. It also represents a major breakthrough in the development of the PRC sports goods industry.

Netease – "LI-NING Netease Sports Channel"

In April 2005, the Group entered into a three-year cooperation agreement with Netease, a leading internet technology venture in the PRC, whereby the two parties agreed to work in close collaboration to launch the "LI-NING Netease Sports Channel" (李寧網易體育頻道). Through a series of joint promotional activities, marketing resources and corporate culture development initiatives, the two parties joined hands to establish an information exchange platform featuring professional and comprehensive coverage of sports news and promoting the motto of "Anything is Possible" amongst the Internet users. Meanwhile, the official strategic marketing alliance between LI-NING and NBA is expected to enhance the depth and influence of NBA reports. Coverage of the medal-winning national sports teams will also be featured, with emphasis on in-depth reports on the diving team, the table tennis team, the gymnastics team and the shooting team.

Swarovski – LI-NING ladies' sports goods with crystals

In April 2005, the Group announced a partnership with Swarovski, the world-leading manufacturer of crystal jewellery and decorations, pursuant to which Swarovski crystal inlays would be featured on LI-NING ladies' tennis wear, fitness wear and fitness footwear. This initiative accelerated pace of the Group to offer fashionable sports goods.

CUBA – Sponsorship for one of the top three basketball associations in the PRC

In December 2005, the Group announced its partnership agreement with the China University Basketball Association ("CUBA"), one of the top three basketball associations in the PRC. In the PRC basketball sector, CUBA is the top association in terms of geographical coverage, participation and cultural sophistication. Securing the role as the on-site equipment sponsor of CUBA will further reinforce the professional image of the LI-NING brand in the basketball sector, thereby enabling the Group to leverage on the relevant promotional resources in markets at university level. Moreover, the cooperation also represents a long-term marketing platform for the Group in the basketball sector.

ATP – Official marketing partner

On 16 March 2006, the Group announced an official marketing partnership agreement with ATP, the world's premier men's professional tennis tournament association. During the seven-year period as specified in the agreement, the Company will be authorized the exclusive right for the manufacture, sale and marketing of tennis products including apparel, footwear and accessories co-branded by LI-NING and ATP. These co-branded products will appear in ATP events as a part of the promotion campaign. ATP and the Company will also co-host the LI-NING ATP Challenger Series and the LI-NING ATP Smash Tennis tournaments, which are expected to offer young tennis athletes plenty of development opportunities. In addition, ATP will also assist the Company to identify and sign up tennis players for endorsement purposes.

The Group successfully improved the public awareness of its new sports products (such as running, basketball, soccer, tennis and fitness products) with effective advertising strategies. "Anything is Possible", the philosophy strongly advocated by the Group, has become a popular catchphrase in daily life in the PRC. According to an online poll conducted by a PRC publisher in 2005, LI-NING brand was elected by Internet users as one of the top three favorite brands in the sportswear category in the PRC. Moreover, LI-NING brand was the only sports goods brand elected as "My Favorite China Brand in 2005" in a campaign organized by CCTV in the PRC.

Product development

The Group has a team of highly competent product development and design professionals in place. During the year under review, in addition to the in-house team, the Group fostered extensive cooperation with international partners in a bid to develop professional and fashionable products of world-class quality.

In 2004, the Group began to launch different types of specialized footwear series (including running, basketball, soccer, tennis and fitness footwear) and received encouraging market response. In Spring 2005, the Company launched "RUN FREE" ultra-light air-flow running footwear series in the PRC, which featured world-class air permeability and was made with ultra-light materials developed in-house and high-quality imported leather material using a new design and manufacturing technique. In addition, the "TOP GUN" series of basketball shoes launched in Fall 2005 was also well received by consumers.

The Group's design and research and development centre in Hong Kong continued to concentrate its effort on establishing the overall design philosophy and formulating brand-building concepts and strategies for the LI-NING branded products. The centre also cooperated with Hong Kong and international institutions and universities with a view to enhancing its technical capability in designing products with high-tech functions.

Distribution and retail network

The Group has established an extensive distribution and retail network with sales outlets throughout the PRC. Adopting a diversified retail model that comprises franchised retail outlets, directly-managed retail stores and concession counters, the Group continued to expand its sales channels during the year. As at 31 December 2005, the domestic distribution and retail network of the Group under the LI-NING brand comprised:

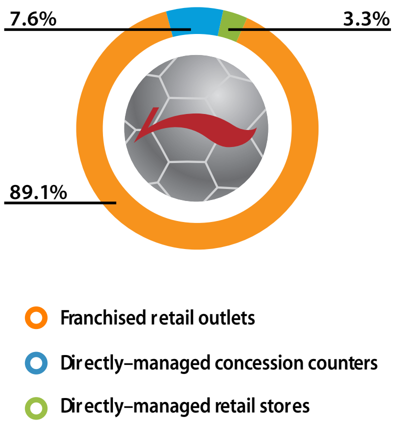
- over 260 distributors operating 3,005 franchised retail outlets across the country; and
- a total of 111 directly-managed retail stores and 257 concession counters in Beijing, Shanghai and 12 provinces in the PRC.

Number of franchised and directly-managed retail stores

	As at 31 December 2005	As at 31 December 2004	Change (%)
Franchised retail outlets	3,005	2,272	32.3
Directly-managed retail stores	111	117	-5.1
Directly-managed concession counters	257	233	10.3
Total	3,373	2,622	28.6

There was a net increase of 751 new stores during the year, bringing the total number of stores of the Group under the LI-NING brand to 3,373. With an aim of enhancing store image and efficiency, the Group launched the 4th generation store image standards in the second half of 2005. During the year under review, there were a total of 98 new and modified stores using the 4th generation standards of which 46 were new stores and 52 were modified existing stores. Furthermore, the Group's brand image and awareness were greatly enhanced with the opening of spacious flagship stores featuring stylish decorations at prime locations in major PRC cities. The newly opened flagship stores included the 1,600 square metre store at Jie Fang Road in Wuhan, the 880 square metre store at Zhong Shan Road in Xiamen and the 436 square metre store at East Main Street in Xi'an.

Percentage of franchised and directly–managed retail stores in 2005



Supply chain management

A standardized supply chain management system has been implemented for all franchised and directly-managed retail outlets under the Group to provide centralized procurement, inventory and logistics support. As a result of effective supply chain management, the Group managed to respond to market changes in a more efficient and flexible manner as highlighted below:

- four large-scale sales fairs for distributors (2004: three) were organized to shorten the cycle from product development to order placements;

- average inventory turnover was substantially improved to 86 days from 112 days in 2004 as a result of enhanced inventory management;

- average accounts receivable turnover was maintained at a satisfactory level of 44 days, as compared to 33 days in 2004; and

- average trade payable turnover decreased by 9 days to 68 days from 77 days in 2004.

Multi-brand business development strategy

On 30 June 2005, Hong Kong Li Ning, an indirect wholly-owned subsidiary of the Company, entered into an agreement with AIGLE to establish a joint venture in Hong Kong, of which Hong Kong Li Ning and AIGLE each owns 50%. Pursuant to the agreement, the joint venture has set up a wholly foreign-owned enterprise in the PRC, which has been granted for a term of 50 years the exclusive right by AIGLE to manufacture, market, distribute and sell apparel and footwear products for outdoor leisure activities and extreme sports with the AIGLE trademarks in the PRC (excluding Hong Kong, Taiwan and Macau).

AIGLE is a world-renowned company that specializes in the business of apparel and footwear products for outdoor leisure activities. The Group believes that the long-term strategic joint venture is conducive to its objective of developing a multi-brand business and enhancing its overall competitive strengths. By joining forces with AIGLE to develop the PRC market, the Company is set to benefit from the combination of AIGLE's worldwide reputation and extensive experience in designing apparel and footwear products for outdoor leisure activities and the Group's vast sales network and leading position in the PRC market. As of March 2006, three AIGLE stores have commenced operation in the PRC.

The Group will continue to seek mutually beneficial partnerships, facilitating the entry of international brands into the PRC market and developing itself into a multi-brand operator with a portfolio of reputable brands.

FINANCIAL POSITION

Net asset value

As at 31 December 2005, the Group's total net asset value was RMB1,178,296,000 (31 December 2004: RMB1,027,225,000). Net asset value per share was RMB115.09 cents (31 December 2004: RMB115.63 cents).

Liquidity and capital resources

For the year ended 31 December 2005, the Group's net cash inflow from operating activities amounted to RMB138,605,000, as compared with net cash inflow of RMB134,417,000 for 2004.

Net cash (cash and cash equivalents less bank borrowings) as at 31 December 2005 amounted to RMB378,368,000, representing an increase of RMB95,800,000 compared with the net cash position as at 31 December 2004. The increase represented the aforesaid cash inflow from operating activities of RMB138,605,000, proceeds from the issue of new shares upon exercise of share options by Directors and employees of RMB5,952,000, interest income received of RMB13,047,000 and net return on fixed deposit of RMB77,364,000, less dividend payment of RMB69,402,000, net capital expenses of RMB51,152,000, net cash outflow from disposal of a subsidiary amounting to RMB14,737,000, interest expenses paid amounting to RMB1,102,000 and net cash reduction of RMB2,775,000 due to exchange rate fluctuation.

As at 31 December 2005, the Group's cash and cash equivalents amounted to RMB378,368,000 (31 December 2004: RMB322,568,000). There were no outstanding bank borrowings (31 December 2004: RMB40,000,000). Equity holders' equity amounted to RMB1,160,924,000 (31 December 2004: RMB1,010,017,000). The debt to equity holders' equity ratio, expressed in total outstanding bank borrowings as a percentage of equity holders' equity was zero (31 December 2004: 4.0%).

As at 31 December 2005, the Group had not entered into any interest rate swaps to hedge against interest rate risks.

Pledge of assets

As at 31 December 2005, no asset of the Group was pledged to secure bank borrowings or for any other purposes.

Contingent liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

Foreign exchange risk

The Group mainly operated in the PRC with most transactions settled in Renminbi, the lawful currency of the PRC.

Proceeds from the initial public offering of the Company in June 2004 were denominated in Hong Kong dollars, part of which has been invested in fixed deposits denominated in US dollars or Hong Kong dollars. The Company also pays dividends in Hong Kong dollars.

The Group may be exposed to foreign exchange fluctuation in relation to its deposits.

CORPORATE RESTRUCTURING

During the year ended 31 December 2005, the Group conducted a corporate restructuring (the "Restructuring") in respect of Beijing Li Ning, its wholly-owned subsidiary, which is mainly engaged in the sales of LI-NING brand products. Prior to the Restructuring, Beijing Li Ning was a domestic company established in the PRC with limited liability, owned as to 80% by 上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.) ("Shanghai Yue Ao") and 20% by 佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastics School Services Company Limited), wholly-owned subsidiaries of the Company in the PRC. After the Restructuring, Beijing Li Ning was converted into a sino-foreign equity joint venture held as to approximately 75% by Shanghai Li Ning, a wholly-owned subsidiary of the Company in the PRC, and approximately 25% by Hong Kong Li Ning, a wholly-owned subsidiary of the Company in Hong Kong.

The purpose of the Restructuring was to rationalize the shareholding structure of the Group in order to improve management and operational efficiency. The Group will continue to review and implement further restructuring as and when appropriate.

DISPOSAL OF INTERESTS IN KAPPA BRAND BUSINESS

On 30 June 2005, Shanghai Yue Ao, a subsidiary of the Company, agreed to transfer its entire 80% equity interest in Beijing Dong Xiang, a subsidiary of the Company to 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.) ("Shanghai Tai Tan") for a consideration of RMB8,614,000 (the "Disposal"). Shanghai Tai Tan is a company owned as to 93% by Mr. Chen Yi Hong, an executive director of the Company before his resignation on 1 September 2005, and his spouse. Shanghai Tai Tan is therefore a connected person of the Company under the Listing Rules.

Concurrent with the Disposal, Shanghai Li Ning, a subsidiary of the Company, agreed to assign all its rights in the outstanding debts of RMB36,200,000 owed to it by Beijing Dong Xiang to Shanghai Tai Tan for a consideration of RMB36,200,000 (the "Assignment").

Beijing Dong Xiang is primarily engaged in the development, manufacturing, sale and distribution of all products related to, named or associated with the KAPPA brand. The KAPPA brand originates from Italy and is currently owned by the BasicNet Group of Italy. Pursuant to the franchised distribution agreement and the technology license agreement between the BasicNet Group and Beijing Dong Xiang (the "KAPPA License Agreements"), Beijing Dong Xiang has been granted the exclusive right to distribute KAPPA brand products in the PRC (including Macau but excluding Hong Kong and Taiwan) until 31 December 2007.

As the KAPPA License Agreements represent only short-term arrangements between the Group and the BasicNet Group and will expire on 31 December 2007, the Company will not be able to enjoy the benefits of growth in value of the KAPPA brand fostered by the Company and funded with its resources in developing KAPPA's business in the long run. The Disposal was therefore consistent with the Group's strategic repositioning to redirect its resources to focus primarily on the development of the Company's own brands, and on the acquisition of or long-term joint venture with international brands, such as the joint venture with AIGLE.

The Directors believed that the Disposal was beneficial to the business development of the Group and in the interest of the Company and its shareholders as a whole. The transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 11 August 2005 and has been completed. Since the completion of the Disposal and the Assignment, Beijing Dong Xiang has ceased to be a subsidiary of the Company.

OUTLOOK AND DEVELOPMENT STRATEGIES

The increasing average disposable income of the general public of the PRC and the rapid urbanization in the PRC have together been the engines driving the rapid growth of consumption of sports goods in the PRC. Along with changes in lifestyle and increased health awareness, sports have become one of the most popular leisure activities. Moreover, major sports events such as the 2006 World Cup and 2008 Beijing Olympics have also generated a strong passion for and interest in sports within the PRC. As a result, demand for sports goods has been on the rise. The sports goods industry in the PRC is anticipated to offer immense growth potential, particularly in the second and third-tier markets. The Group, which owns a renowned sports goods brand in the PRC and with a solid business and financial position, is well positioned to benefit from this positive trend.

To cope with keen competition in the PRC sports goods market, the Group will raise its core competitive edge to maintain high growth. It will continue to strengthen brand building and marketing, reinforce product design and development and improve supply chain management capabilities to build up its competitiveness in the international arena by 2008.

The Group will continue to focus on developing the two major product lines, namely sports footwear and apparel. We will increase our product appeal to international markets and enhance the professional standards of the LI-NING brand by improving product quality through innovative designs and technological improvements. The Group will also continue with its efforts to increase brand awareness by implementing comprehensive marketing strategies to increase customer loyalty and their preference for our products. Paving way for future development, the Group will further expand its retail network, improve our store display and decoration with a view to further promoting our brand image and store efficiency.

Apart from developing its own brands, the Group will also continue to seek opportunities for long-term cooperation with reputable brands, so as to further enhance its competitive edge and boost future growth.

The Group has an experienced and professional management team to implement its overall corporate planning and strategies, brand building, business development, capital allocation and financial management plans. As our business expands, the management team has been growing with new recruits with strong marketing, retail and sales management experience of multi-national background which further enhance our management and execution capability. By leveraging on our competitive strengths, the Group's management is committed to launching premium sports goods for customers, offering job satisfaction and commitment for its employees and generating attractive returns for Shareholders and investors as a whole.