LI NING COMPANY LIMITED
（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

HIGHLIGHTS OF 2005 ANNUAL RESULTS

- Turnover rose by 30.5% to RMB2,450.5 million
- Profit attributable to equity holders grew by 52.6% to RMB186.8 million
- Basic earnings per share amounted to RMB18.25 cents (2004: RMB13.78 cents) *
- Margin of profit attributable to equity holders was 7.6% (2004: 6.5%)
- Proposed final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share

* *Excluding the impact of IFRS 2 "Share-based Payment" in relation to share option schemes, basic earnings per share amounted to RMB20.94 cents (2004: RMB15.02 cents).*

ANNUAL RESULTS

The board of directors (the "Directors" or "Board") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, together with the comparative figures for 2004, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005
(Expressed in RMB'000 unless otherwise stated)

	Note	2005	2004 (As restated – Note 2)
Turnover	5	**2,450,536**	1,878,102
Cost of sales		**(1,297,991)**	(1,004,578)
Gross profit		**1,152,545**	873,524
Distribution expenses		**(690,527)**	(549,771)
Administrative expenses		**(223,147)**	(160,734)
Other income	6	**32,626**	17,399
Operating profit		**271,497**	180,418
Finance income, net	8	**1,954**	821
Profit before taxation		**273,451**	181,239
Taxation	9	**(85,106)**	(57,486)
Profit for the year		**188,345**	123,753
Attributable to:			
Equity holders of the Company		**186,800**	122,414
Minority interests		**1,545**	1,339
		188,345	123,753
Dividends	10	**73,957**	86,753
Earnings per share for equity holders of the Company (RMB cents)	11		
– Basic		**18.25**	13.78
– Diluted		**18.13**	13.75

CONSOLIDATED BALANCE SHEET
As at 31 December 2005
(Expressed in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	**2005**	2004 (As restated – Note 2)
ASSETS			
Non-current assets			
Property, plant and equipment		**95,796**	89,399
Land use rights		**3,857**	4,057
Intangible assets		**9,960**	9,363
Deposit paid for land use right		**10,002**	–
		119,615	102,819
Current assets			
Inventories		**290,617**	318,326
Accounts and notes receivable	*12*	**373,226**	217,574
Other receivables and prepayments		**67,824**	81,424
Pledged bank deposits		**–**	66,212
Fixed deposits held at banks		**353,161**	372,508
Cash at banks and in hand		**378,368**	322,568
		1,463,196	1,378,612
Total assets		**1,582,811**	1,481,431
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**108,889**	108,563
Reserves		**1,052,035**	901,454
		1,160,924	1,010,017
Minority interests		**17,372**	17,208
Total equity		**1,178,296**	1,027,225
LIABILITIES			
Current liabilities			
Trade payables	*13*	**214,162**	260,997
Other payables and accruals		**161,196**	138,102
Short-term borrowings		**–**	40,000
Taxation payable		**29,157**	15,107
Total liabilities		**404,515**	454,206
Total equity and liabilities		**1,582,811**	1,481,431

Notes:

1. BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

The Company and its subsidiaries have its own brand and are principally engaged in brand development, design, manufacturing, sale and distribution of sports-related footwear, apparel and accessories in the PRC.

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation dated 5 June 2004, the Company acquired the entire issued share capital of RealSports Pte. Ltd. ("RealSports"), the then holding company of the other companies comprising the Group and became the holding company of the Group. The reorganisation has been accounted for in a manner similar to pooling-of-interests, under which the consolidated income statement and cash flow statement for the year ended 31 December 2004 included the results of operations and cash flows of the companies comprising the Group from 1 January 2004 or since their dates of incorporation or dates of becoming members of the Group, whichever is later, to 31 December 2004. The balance sheet as at 31 December 2004 has been prepared to present the financial position of the Group as if the current group structure had been in existence since 1 January 2004.

2. CHANGES IN ACCOUNTING POLICIES

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting policies used in the preparation of these financial statements are consistent with those used in the annual accounts for the year ended 31 December 2004, except that the Group has adopted certain of its accounting policies pursuant to a series of IFRS issued or revised by IASB which became effective for financial years beginning on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new/revised policies are set out below.

Standards and amendments to published standards effective in 2005
In 2005, the Group adopted the following new/revised IFRS that are relevant to the operations of the Group. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to Directors and employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. In accordance with IFRS 2, the cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The main impact of IFRS 2 on the Group is the expensing of share options granted under the share option schemes. The effect of the change of policy has decreased the Group's profit for the year ended 31 December 2005 by RMB27,557,000 (2004: RMB11,025,000) as a result of increased staff costs, and a corresponding increase in other reserves. In addition, such change of policy has decreased basic earnings per share by RMB2.69 cents for the year ended 31 December 2005 (2004: RMB1.24 cents).

The adoption of the other standards as mentioned above, being IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 32, 33, 39, and IFRS 3 and 5 did not result in substantial changes to the Group's accounting policies, except that IAS 1 has affected the presentation of minority interests and other disclosures. Also in accordance with IAS 21, the functional currency of each of the companies comprising the Group has been re-evaluated based on the guidance under the revised standard.

Standards, amendments and interpretations to published standards that are not effective in 2005
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006, which the Group has not early adopted, as follows:

- IAS 19 (Amendment) — Employee Benefits
- IAS 39 (Amendment) — Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment) — The Fair Value Option
- IAS 39 and IFRS 4 (Amendment) — Financial Guarantee Contracts
- IFRS 1 (Amendment) — First-time Adoption of IFRS
- IFRS 6 (Amendment) — Exploration for and Evaluation of Mineral Resources
- IFRS 7 — Financial Instruments: Disclosures
- IFRIC 4 — Determining whether an arrangement contains a lease
- IFRIC 5 — Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 — Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment

The Directors have assessed the impact of these new standards and have concluded that IAS 19, IFRS 1, IFRS 6, IFRIC 5 and IFRIC 6 are not relevant to the Group's situations. The Group is currently assessing the impact of the remaining standards or interpretations and will adopt them as appropriate in the 2006 financial statements.

3. NEW ACCOUNTING POLICIES

(a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(3) All resulting exchange differences are recognized as a separate component of equity.

(b) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. As at 31 December 2004 and 2005, the Group did not hold any investments in this category.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are included in accounts receivable and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. As at 31 December 2004 and 2005, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. As at 31 December 2004 and 2005, the Group did not hold any investments in this category.

Purchases and sales of investments are recognized on trade-date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(c) Share-based payments

The Group maintains several equity-settled, share-based compensation plans. The fair value of the Director and employee services received in exchange for the grant of the options is credited to other reserves and recognized as an expense over the vesting period, and is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

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

4. 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.

The proceeds derived from the initial public offering of the Company in June 2004 ("IPO") are denominated in Hong Kong Dollars ("HK$"). Certain sum has been deposited into various bank deposit accounts denominated in HK$ or United States Dollars ("US$"). In addition, the Company is required to pay dividends in HK$ when dividends are declared.

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

(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, other than cash at banks. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings during the year (nil balance as at 31 December 2005). 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 receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivable has been made in the consolidated financial statements.

(b) Fair value estimation

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables, short-term borrowings and other payables 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.

5. TURNOVER AND SEGMENT INFORMATION

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

Primary reporting format – business segment

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

Secondary reporting format – geographical segment

Substantially all assets and operations of the Group during the two years ended 31 December 2004 and 2005 were located in the PRC. No geographical segments analysis is presented as less than 5% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

6. OTHER INCOME

	2005	2004
Subsidies from local governments *(Note a)*	**29,535**	17,399
Net gain on disposal of a subsidiary *(Note b)*	**3,091**	–
	32,626	17,399

Note:

(a) During the year, the Group received subsidies from various local governments in the PRC amounting to RMB29,535,000 (2004: RMB17,399,000).

(b) During the year, the Group disposed of Beijing Dong Xiang Sports Development Co., Ltd. ("Beijing Dong Xiang"), a company incorporated in the PRC which is principally engaged in sales of "KAPPA" branded products, to Shanghai Tai Tan Sporting Goods Co., Ltd. ("Shanghai Tai Tan"), a company incorporated in the PRC in which Mr. Chen Yi Hong, a former director, has a beneficial interest, and recognized gain on disposal of RMB3,091,000.

7. EXPENSES BY NATURE

	2005	2004
Costs of inventories recognized as expenses included in cost of sales	**1,226,719**	987,622
Depreciation on property, plant and equipment	**22,310**	18,147
Amortization of intangible assets	**2,498**	2,067
Amortization of land use rights	**130**	207
Advertising and marketing expenses	**377,667**	267,769
Director and employee benefit expense	**228,620**	189,605
Operating lease rentals in respect of land and buildings	**98,966**	80,794
Research and product development	**43,703**	35,895
Transportation and logistics expenses	**54,942**	44,730
Write-back of impairment charge of accounts receivable	**(2,211)**	(7,030)
Write-down of inventories to net realizable value/(reversal of write-down)	**5,318**	(5,201)
Auditors' remuneration	**2,788**	2,766
Other expenses	**150,215**	97,712
Total of cost of sales, distribution and administrative expenses	**2,211,665**	1,715,083

8. FINANCE INCOME, NET

	2005	2004
Interest expenses on bank borrowings wholly repayable within 5 years	**1,102**	4,369
Interest income on bank balances and deposits	**(14,026)**	(3,715)
Net foreign currency exchange loss/(gain)	**10,970**	(1,475)
	(1,954)	(821)

9. TAXATION

	2005	2004
Current taxation		
– Hong Kong profits tax	**365**	430
– The PRC enterprise income tax	**84,741**	57,056
	85,106	57,486

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

(b) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the year ended 31 December 2005 (2004: 17.5%).

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

10. DIVIDENDS

	2005	2004
Interim dividend paid of RMB2.30 cents (2004: Nil) per ordinary share *(Note a)*	**22,649**	40,000
Proposed final dividend of RMB5.00 cents (2004: RMB4.57 cents) per ordinary share *(Note b)*	**51,308**	46,753
	73,957	86,753

Notes:

(a) At a Board meeting held on 25 August 2005, the Directors declared an interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) per ordinary share, totalling RMB22,649,000 for the six months ended 30 June 2005.

The comparative figure amounting to RMB40,000,000 represents a special distribution declared by RealSports, the intermediate holding company, to its then equity holders prior to the Company's IPO in The Stock Exchange of Hong Kong Limited.

(b) At a Board meeting held on 29 March 2005, the Directors proposed a final dividend of RMB4.57 cents (equivalent to HK4.30 cents) per ordinary share, totalling RMB46,753,000 for the year ended 31 December 2004. The dividend was approved by and paid to shareholders in 2005.

At a Board meeting held on 22 March 2006, the Directors proposed a final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share, totalling RMB51,308,000 for the year ended 31 December 2005. The translation of RMB into Hong Kong dollars is made at the exchange rate as at 31 December 2005. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be based on the official exchange rate of RMB against Hong Kong dollars on 12 May 2006, being the date of the annual general meeting on which the final dividend is proposed to the shareholders for approval. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2006.

11. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company	**186,800**	122,414
Weighted average number of ordinary shares in issue (thousands)	**1,023,827**	888,392
Basic earnings per share (RMB cents)	**18.25**	13.78

Diluted

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

	2005	2004
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**186,800**	122,414
Weighted average number of ordinary shares in issue (thousands)	**1,023,827**	888,392
Adjustment for share options (thousands)	**6,750**	1,871
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,030,577**	890,263
Diluted earnings per share (RMB cents)	**18.13**	13.75

12. ACCOUNTS AND NOTES RECEIVABLE

	2005	2004
Accounts and notes receivable	**376,942**	227,594
Less: provision for impairment of receivables	**(3,716)**	(10,020)
	373,226	217,574

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

	2005	2004
0 – 30 days	**226,956**	154,318
31 – 60 days	**67,105**	34,946
61 – 90 days	**44,661**	13,847
91 – 180 days	**34,504**	12,942
181 – 365 days	**637**	3,705
Over 365 days	**3,079**	7,836
	376,942	227,594

As at 31 December 2005, the largest five customers accounted for 29% of total accounts receivable balance (2004: 17%).

13. TRADE PAYABLES

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

	2005	2004
0 – 30 days	**205,666**	189,984
31 – 60 days	**4,645**	66,855
61 – 90 days	**2,410**	2,695
91 – 180 days	**312**	873
181 – 365 days	**829**	341
Over 365 days	**300**	249
	214,162	260,997

14. NET CURRENT ASSETS

As at 31 December 2005, the Group's net current assets amounted to approximately RMB1,058,681,000 (2004: approximately RMB924,406,000).

15. TOTAL ASSETS LESS CURRENT LIABILITIES

As at 31 December 2005, the Group's total assets less current liabilities amounted to approximately RMB1,178,296,000 (2004: approximately RMB1,027,225,000).

16. EVENTS AFTER THE BALANCE SHEET DATE

On 3 January 2006, the Company granted to certain employees 360,000 share options at the subscription price of HK$5.50 per share pursuant to the Company's Post-IPO Share Option scheme.

FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of RMB5.00 cents (equivalent to HK4.81 cents) per ordinary share for the year ended 31 December 2005 (2004: RMB4.57 cents, equivalent to HK4.30 cents), subject to approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2006. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00=RMB1.0403 as at 31 December 2005 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be based on the official exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 12 May 2006, being the date of the annual general meeting on which the final dividend is proposed to the shareholders for approval. Subject to the approval by the shareholders, the proposed final dividend is expected to be paid on or about 22 May 2006 to the shareholders whose names shall appear on the registers of members of the Company on 12 May 2006.

An interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) (2004: Nil) per ordinary share for the six months ended 30 June 2005, was paid to the shareholders on 30 September 2005.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from Tuesday, 9 May 2006 to Friday, 12 May 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 8 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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

Highlights

The overall results of the Group for the year ended 31 December 2005 were encouraging. Turnover increased by 30.5% to RMB2,450,536,000; operating profit rose by 50.5% to RMB271,497,000; EBITDA (earnings before interest, tax, depreciation and amortization) increased by 47.6% to RMB296.4 million; profit after tax increased by 52.2% to RMB188,345,000; profit attributable to equity holders grew by 52.6% to RMB186,800,000; and return on equity for equity holders was 17.2%. Net asset value per share was RMB115.09 cents and the ratio of debt to equity holders' equity (i.e. total outstanding bank borrowings as a percentage of equity holders' equity) was zero.

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

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 offering 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. The sales of apparel products increased by 26.1%. Sales of accessories decreased by 6.1% as compared to 2004 on our reduced emphasis for better retail sales efficiency.

Percentage of turnover by sales channel

	Year ended 31 December 2005 % of total turnover	2004 % 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 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	2004
	Gross profit margin (%)	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.

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 programme. 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 Sporting Goods Co., Ltd. ("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. He 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 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 the Association Tennis Professionals ("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 favourite brands in the sports wear category in the PRC. Moreover, LI-NING brand was the only sports goods brand elected as one of "My Favourite PRC Brands 2005" in a campaign organized by CCTV.

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 stores, 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 under the LI-NING brand of the Group 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 was 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.

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, Li Ning Sports (Hong Kong) Company Limited ("Hong Kong Li Ning"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with AIGLE International S.A. of France ("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 objectives of developing a multi-brand business and enhancing our 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 operations 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 operations 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 branded products. Prior to the Restructuring, Beijing Li Ning was a domestic company established in the PRC with limited liability, owned as to 80% by 上海悅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 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited) ("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 北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.) ("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 Tai is therefore a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

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. Upon completion of the Disposal, Beijing Dong Xiang ceased to be a subsidiary of the Company.

Human Resources

As at 31 December 2005, the Group had about 2,890 employees (31 December 2004: 4,402 employees). The decrease in the number of employees was mainly due to the outsourcing of sales activities which led to a reduction in sales staff during the year under review.

In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the Group's results and the performance of individuals.

Outlook and Development Strategies

The increasing average disposable income of the general public of the PRC and the rapid urbanization 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 country. 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 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding the highest standards of corporate governance by continual review and enhancement of its corporate governance practices. During the year of 2005, the Board has reviewed the Company's corporate governance practices in light of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules in force from 1 January 2005 and has complied with all the code provisions under the Code, including inter alia, the adoption of revised terms of reference for the Audit Committee and the Remuneration Committee as specified in the Code, the formation of a Nomination Committee and adoption of its written terms of reference as specified in the Code. During the year under review, the Company has also engaged external professional adviser and initiated a project to review its financial, operational and compliance controls and risk management functions with a view to further enhancing the effectiveness of the Group's internal control system. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the applicable provisions of the Code.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the final results for the year ended 31 December 2005, with management and external auditors.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 12 May 2006 at 11:00 a.m. A notice convening the annual general meeting will be published in the South China Morning Post and the Hong Kong Economic Times on or about 13 April 2006 and will be dispatched to the shareholders together with the Company's 2005 annual report.

As at the date of this announcement, the executive Directors of the Company are Mr. LI Ning, Mr. ZHANG Zhi Yong and Mr. TAN Wee Seng. The non-executive Directors are Mr. LIM Meng Ann, Mr. Stuart SCHONBERGER and Mr. FONG Ching, Eddy. The independent non-executive Directors are Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei, Jane and Mr. CHAN Chung Bun, Bunny.

This results announcement is published on the Company's website at www.lining.com, the Hong Kong Stock Exchange's website at www.hkex.com.hk and www.irasia.com/listco/hk/lining.

By order of the Board
Li Ning Company Limited
LI Ning
Chairman

Hong Kong, 22 March 2006