
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Li Ning Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED SALE OF 10% EQUITY INTEREST IN SHANGHAI DOUBLE
HAPPINESS CO., LTD. AND THE ENTERING INTO OF
THE OPTION AGREEMENT**

Financial Adviser to the Company

MOELIS & COMPANY

**Independent Financial Adviser to the Independent Board Committee and the Independent
Shareholders**



SOMERLEY CAPITAL LIMITED

A letter from the board of directors of Li Ning Company Limited (the “**Company**”) is set out on pages 5 to 18 of this circular.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on pages 19 to 20 of this circular. A letter from Somerley Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 21 to 35 of this circular.

A notice convening an extraordinary general meeting of the Company (the “**EGM**”) to be held at Star Room, Level 42, Cordis, Hong Kong at Langham Place, 555 Shanghai Street, Mongkok, Kowloon, Hong Kong on Friday, 4 December 2015 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. If you are not able to attend and/or vote at the EGM, you are strongly urged to complete and return the form of proxy, a copy of which is enclosed, in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

18 November 2015

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context states otherwise:

“Articles”	the articles of association of Double Happiness
“Board”	the board of Directors
“Call Option”	the right granted to the Vendor, the Company and companies controlled by them, to purchase the Sale Shares and their Derived Interests from the Purchaser, Viva China and companies controlled by them which hold the Sale Shares by then at the Exercise Price upon the Exercise Date pursuant to the Option Agreement
“Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2331)
“Completion”	completion of the Share Sale in accordance with the terms and conditions of the Share Transfer Agreement
“Conditions for Exercise”	the conditions precedent to the exercise of the Options, the details of which are set out in the section headed “2. The Option Agreement – Conditions for Exercise” in the letter from the Board of this circular
“Conditions of Payment”	the conditions to the payment of the Consideration pursuant to the Share Transfer Agreement, details of which is set out in the section headed “1. The Share Transfer Agreement – Conditions of Payment” in the letter from the Board of this circular
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration of RMB124,992,000 payable by the Purchaser to the Vendor for the purchase of the Sale Shares pursuant to the Share Transfer Agreement
“Derived Interests”	equity interests derived from shares (including shares issued by way of bonus issues, capitalisation of profits or reserves, etc.)
“Directors”	the directors of the Company
“Disposal”	(i) the Share Sale pursuant to the Share Transfer Agreement, (ii) the grant of the Put Option to the Purchaser pursuant to the Option Agreement, and (iii) the grant of the Call Option to the Vendor pursuant to the Option Agreement

DEFINITIONS

“Double Happiness”	Shanghai Double Happiness Co., Ltd. (上海紅雙喜股份有限公司), a Shanghai-based company incorporated in the PRC with limited liability and a non wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Double Happiness Group”	Double Happiness and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be held at Star Room, Level 42, Cordis, Hong Kong at Langham Place, 555 Shanghai Street, Mongkok, Kowloon, Hong Kong on Friday, 4 December 2015 at 10:00 a.m. (or any adjournment thereof)
“Exercise Date”	the last day of the 4th year after the date of Completion
“Exercise Price”	the price at which holder(s) of the Options is entitled to buy or sell the Sale Shares and their Derived Interests pursuant to the Option Agreement, the details of which are set out in the section headed “2. The Option Agreement – Premium and Exercise Price” in the letter from the Board of this circular
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors established by the Company to make recommendations to the Independent Shareholders regarding the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement
“Independent Shareholders”	Shareholders other than Viva China and its associates
“Latest Practicable Date”	16 November 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Options”	the Call Option and the Put Option

DEFINITIONS

“Option Agreement”	the agreement entered into between the Vendor, the Purchaser, the Company and Viva China on 23 October 2015, details of which are set out in the section headed “2. The Option Agreement” in the letter from the Board of this circular
“percentage ratios”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this circular and unless context suggests otherwise, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Viva China Investment Limited (非凡中國投資有限公司), a limited company incorporated in Hong Kong and a wholly-owned subsidiary of Viva China
“Put Option”	the right granted to the Purchaser, Viva China and companies controlled by them to sell the Sale Shares and their Derived Interests to the Vendor, the Company and companies controlled by them at the Exercise Price upon the Exercise Date pursuant to the Option Agreement
“Sale Shares”	11,200,000 shares, representing 10% of the equity interest in Double Happiness, held by the Vendor as at the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	the ordinary shares of HK\$0.10 each in the share capital of the Company
“Share Sale”	the sale of the Sale Shares by the Vendor to the Purchaser pursuant to the Share Transfer Agreement
“Share Transfer Agreement”	the sale and purchase agreement entered into between the Vendor and the Purchaser on 23 October 2015 under which the Vendor agreed to sell, and the Purchaser agreed to purchase, the Sale Shares
“Shareholder(s)”	the holder of Shares in the Company

DEFINITIONS

“Somerley” or “Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation under the SFO for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Shanghai Yue Ao Sporting Goods Co., Ltd. (上海悦奥體育用品有限公司), a company formed in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Viva China”	Viva China Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the GEM of the Stock Exchange (stock code: 8032)
“Viva China Group”	Viva China and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For ease of reference only, the names of PRC established companies and entities have been included in this circular in both Chinese and English and the English names of these companies and entities are English translations of their respective official Chinese names. In the event of any inconsistency between the English names and their respective Chinese names, the Chinese names shall prevail.

LETTER FROM THE BOARD



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

Executive Directors

Mr. LI Ning (*Executive Chairman and
Interim Chief Executive Officer*)

Non-executive Director

Mr. CHEN Yue, Scott
Mr. WU, Jesse Jen-Wei

Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Dr. CHAN Chung Bun, Bunny
Mr. SU Jing Shyh, Samuel

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business

Suites 1, 7-15, Level 45
Office Tower, Langham Place
8 Argyle Street, Mongkok
Kowloon, Hong Kong

18 November 2015

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED SALE OF 10% EQUITY INTEREST IN SHANGHAI DOUBLE
HAPPINESS CO., LTD. AND THE ENTERING INTO OF
THE OPTION AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 25 October 2015 in relation to the entering into of :

- (1) the Share Transfer Agreement between the Vendor and the Purchaser pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase, the Sale Shares which represents 10% of the equity interest in Double Happiness; and

LETTER FROM THE BOARD

- (2) the Option Agreement between the Vendor, the Company, the Purchaser and Viva China pursuant to which, among other things, the Vendor is granted the Call Option to purchase from the Purchaser, and the Purchaser is granted the Put Option to sell to the Vendor, the Sale Shares and their Derived Interests, subject to the conditions under the Option Agreement.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement. Somerley has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) information on the Share Transfer Agreement and the Option Agreement; (ii) the letter of advice from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement; (iii) the letter of recommendation from the Independent Board Committee in respect of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement; and (iv) the notice of EGM.

1. THE SHARE TRANSFER AGREEMENT

Date: 23 October 2015

- Parties:**
1. The Vendor, a wholly-owned subsidiary of the Company
 2. The Purchaser, a wholly-owned subsidiary of Viva China

Subject matter: The Vendor agreed to sell, and the Purchaser agreed to acquire, the Sale Shares which represent 10% of the equity interest in Double Happiness as at the Latest Practicable Date, subject to and upon the terms and conditions of the Share Transfer Agreement.

As at the Latest Practicable Date, Double Happiness is an indirect non wholly-owned subsidiary of the Company, and the Vendor holds 57.5% of the equity interest in Double Happiness.

Upon Completion, the Company will indirectly hold 47.5% of the equity interest in Double Happiness and remain the largest shareholder of Double Happiness, while Viva China will indirectly hold 10% of the equity interest in Double Happiness. Double Happiness will cease to be a subsidiary of the Company upon Completion.

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Consideration:

RMB124,992,000, which was determined after arm's length negotiation with reference to a number of markets-based valuation metrics including but not limited to: price-earnings multiples, price-to-book multiples, and enterprise value-to-EBITDA multiples of comparable businesses; and similar multiples observed in precedent transactions of a comparable nature as well as those implied by the Company's historic share price performance.

The Company considers other companies listed on the Main Board of the Stock Exchange principally engaged in the manufacturing, design, development, marketing and sale of sports-related equipment, footwear and apparel in the People's Republic of China as comparable businesses. Specifically, these companies include 361 Degrees International Limited (1361), Xtep International Holdings Limited (1368), Peak Sport Products Co Limited (1968) and Hosa International Limited (2200).

Company	P/E Ratio (times)	Normalized	EV/ EBITDA	Price/Book
		P/E Ratio (times)	Ratio (times)	Ratio (times)
Period	2014A	2014A	2014A	2014A
Xtep International Holdings Limited	14.5	14.6	7.3	1.5
361 Degrees International Limited	11.8	11.2	3.1	0.9
Hosa International Limited	10.6	14.0	6.5	2.6
Peak Sport Products Co Limited	13.0	13.6	3.5	1.0
Minimum	10.6	11.2	3.1	0.9
Maximum	14.5	14.6	7.3	2.6

Source: S&P Capital IQ and respective companies' financial statements

Note: Market data as of 20 October 2015. Normalized P/E Ratio excludes the impact of extraordinary items. Items deemed to be extraordinary include, inter alia, any gains or losses from the of sales of assets outside the normal course of business, changes in goodwill, foreign exchange gains and losses and mark-to-market movements in available for sale securities. The after tax impact of these adjustments were computed using the comparable companies' prevailing statutory tax rate. This "normalization" adjustment is commonly practiced by financial analysts in comparing comparable companies.

LETTER FROM THE BOARD

The consideration of RMB125 million for the 10% stake in Double Happiness represents a historical price-earnings multiple of approximately 13.3 times, an enterprise value-to-EBITDA multiple of approximately 7.4 times and a price-to-book multiple of 4.2 times, based on the audited net profit, EBITDA and shareholders' equity of Double Happiness for the year ended 31 December 2014 of approximately RMB94 million, RMB141 million and RMB295 million, respectively. Please also note that the multiples of the comparable companies in the table above have been adjusted to exclude any effects from extraordinary items. The implied enterprise value of Double Happiness was computed using the unaudited 30 June 2015 net debt figure.

As the Consideration lies within the price-earnings multiple range of the comparable companies and is above their enterprise value-to-EBITDA and price-to-book multiple ranges as outlined above, the consideration was considered fair and reasonable by the Board (other than the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee of this circular).

The Consideration is payable by the Purchaser by cash remittance in Hong Kong dollar equivalent (the exchange rate shall be the median exchange rate published by the People's Bank of China on the date of the remittance) within 3 months of the issuance of the new business licence of foreign-invested enterprises for Double Happiness, subject to the full satisfaction or waiver (if applicable) of the Conditions of Payment.

LETTER FROM THE BOARD

Conditions of Payment: Payment of the Consideration by the Purchaser is conditional upon the following conditions being satisfied, unless otherwise agreed by the parties or (as to condition (iii)) being waived by either of the parties:–

- (i) both parties having obtained all necessary consents, authorisations and approvals required from internal and external organizations or persons with authorities in respect of the execution and performance of the Share Transfer Agreement (including the consents, authorizations and approvals required to be obtained under applicable laws and regulations and the Listing Rules and the GEM Listing Rules), including but not limited to the consents, authorisations and approvals to be obtained at Double Happiness' shareholders' meeting or from the board of directors and the shareholders of the Vendor and the Purchaser or any relevant regulatory authorities or other governmental organizations, and the declarations by Double Happiness' other shareholders waiving their right of first refusal;
- (ii) all other agreements and documents necessary for the application with the relevant commercial regulatory authorities for approval of the Share Sale having been duly executed by both parties (on condition that the said agreements and documents shall not contradict with the terms and conditions under the Share Transfer Agreement);
- (iii) there having been no breach by the parties of the representations and warranties given by them in the Share Transfer Agreement;
- (iv) the Share Sale having been approved by the relevant commercial regulatory authorities, a certificate of approval for foreign-invested enterprises having been issued to Double Happiness, and the registrations with the Shanghai Administration for Industry and Commerce in relation to the Share Sale, the amendment of the Articles and the change in board composition having been completed; and
- (v) Double Happiness having registered its particulars as a foreign-invested enterprise (as a domestic enterprise acquired by a foreign investor) with a bank of its place of establishment and completed the relevant foreign exchange procedures, and a designated foreign exchange account for asset realization having been set up by the Vendor.

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- Other terms and conditions:** The Purchaser will have the right to nominate one director to the board of Double Happiness, whereas the right of the Vendor to nominate 4 directors to the board of Double Happiness will be reduced to a right to nominate 3 directors. The Vendor will cause one of its nominated directors to resign from the board of Double Happiness before the Completion. The Vendor has undertaken to vote for, and to use its best effort to procure other existing shareholders of Double Happiness to vote for, the relevant resolution(s) for the corresponding amendments to the Articles and, subject to the satisfaction of the qualifications required under the law, the appointment of the director nominated by the Purchaser to the board of Double Happiness.
- Completion:** Completion of the Share Sale will take place upon the completion of the necessary industrial and commercial registrations in relation to the Sale Shares and payment of the Consideration in accordance with the Share Transfer Agreement.

2. THE OPTION AGREEMENT

- Date:** 23 October 2015
- Parties:**
1. The Vendor
 2. The Company
 3. The Purchaser
 4. Viva China
- Subject matter:** The Vendor, the Company and companies controlled by them are granted the Call Option to purchase, and the Purchaser, Viva China and companies controlled by them are granted the Put Option to sell, the Sale Shares and their Derived Interests subject to the conditions under the Option Agreement
- Call Option:** Subject to the full satisfaction of the Conditions for Exercise, the Vendor, the Company and companies controlled by them will have the right to purchase the Sale Shares and their Derived Interests from the Purchaser, Viva China and companies controlled by them which hold the Sale Shares by then at the Exercise Price upon the Exercise Date.
- Put Option:** Subject to the full satisfaction of the Conditions for Exercise, the Purchaser, Viva China and companies controlled by them will have the right to sell the Sale Shares and their Derived Interests to the Vendor, the Company and companies controlled by them at the Exercise Price upon the Exercise Date.

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- Premium and Exercise Price:** No premium is payable for the grant of the Options.
- The Exercise Price for the Options is calculated based on the Consideration plus 6.5% interest per annum after deducting the relevant dividend entitlements, the formula of which is as follows:
- $\text{Consideration} \times (1+6.5\%)^4 - \text{total cash dividends received from Double Happiness from the date of Completion to the Exercise Date}$
- Exercise Date:** The last date of the 4th year after the date of Completion
- Conditions for Exercise:** The exercise of any of the Options is conditional upon the satisfaction of all of the following Conditions for Exercise as at the Exercise Date:-
- (1) Double Happiness (or any holding company of Double Happiness formed as a result of restructuring of Double Happiness) has not been listed on any major stock exchanges within 4 years of the Completion (excluding the last day of the 4th year);
 - (2) all necessary approvals concerning the Options under the then applicable Listing Rules, GEM Listing Rules and laws of Hong Kong having been obtained by the Company, the Vendor, Viva China and the Purchaser and companies controlled by them respectively (if applicable); and
 - (3) the approvals required under the Articles having been obtained and the rights of first refusal of the Sale Shares and their Derived Interests having been waived by all other shareholders of Double Happiness then.
- The Options shall be exercised on the Exercise Date by the issuance of written notification of the exercise to the counterparty on the said date.
- The Sale Shares and their Derived Interests shall belong to the Vendor, the Company or companies controlled by them (as the case may be) upon full payment of the Exercise Price.
- Other terms and conditions:** The Purchaser, Viva China and companies controlled by them will not sell the Sale Shares or their Derived Interests on or before the Exercise Date to any third parties, other than any of the Purchaser, Viva China and companies controlled by it, without the prior consent of the other parties to the Option Agreement.

LETTER FROM THE BOARD

Guarantee by parents: The respective obligations of and performance of the terms of the Option Agreement by the Vendor and other companies controlled by it and the Company and by the Purchaser and other companies controlled by it and Viva China are guaranteed by the Company and Viva China, respectively.

Automatic termination: If the Conditions for Exercise are not fulfilled on or before the Exercise Date, the Option Agreement shall terminate automatically unless the parties agree otherwise in writing.

3. FINANCIAL EFFECT OF THE SHARE SALE AND USE OF PROCEEDS

In connection with the disposal of 10% equity interest in Double Happiness and the resultant loss of control in Double Happiness, based on management's preliminary estimates, the Company expects to recognise a RMB260 million net disposal gain on the consolidated account of the Group. Such consolidated net disposal gain is derived based on the derecognition of the carrying amount of all the assets of Double Happiness, including goodwill as at 30 June 2015, and this is compared to the proceeds to be received and the fair value of the remaining 47.5% investment to be retained by the Group.

According to paragraph 25 of HKFRS 10, as a result of the loss of control in a subsidiary, the consolidated disposal gain should consist of both disposal gain and remeasurement gain of the remaining equity interest retained by an entity. As such, the net consolidated disposal gain of RMB260 million as illustrated above mainly comprises two parts: (1) the net disposal gain arising from the sale of the 10% equity interest in Double Happiness amounting to approximately RMB45 million, (2) a gain on remeasurement of the 47.5% equity interest retained in Double Happiness amounting to approximately RMB215 million. The remeasurement gain represents the increase in fair value of the retained 47.5% equity interest in Double Happiness, which is calculated in proportionate to the RMB124,992,000 consideration received in connection with the disposal of the 10% equity interest in Double Happiness.

The Group's cash balance on a fully consolidated basis as at 30 June 2015 is RMB1,757 million (31 December 2014: RMB1,031 million) while the Group's cash balance on a pro forma deconsolidated basis as at the same date is RMB1,541 million (31 December 2014: RMB891 million). For illustration purposes only, if the impact of the approximately RMB125 million consideration to be received from the Disposal is included, the Group's cash balance on a deconsolidated, historical pro forma basis would increase to RMB1,666 million (31 December 2014: RMB1,016 million).

The Disposal is expected to bring in approximately RMB125 million of additional cash under the full control of the Group for further investment into the core "LI NING" brand. Historically, Double Happiness, as a self-sustaining operation, has managed and deployed its own financial resources independently from the rest of the Group. The Group's access to cash at Double Happiness is solely through dividends declared by Double Happiness.

Apart from the one-off gain to be recognized upon Completion, the Company would cease to consolidate the revenue of Double Happiness, and the attributable net profit of Double Happiness to be recorded by the Group would decrease from 57.5% to 47.5%. Upon Completion, total assets and total

LETTER FROM THE BOARD

liabilities of the Group is expected to decrease mainly because of deconsolidation of Double Happiness while net assets of the Group is expected to increased mainly from the aforementioned disposal gain recorded.

The net proceeds from the Share Sale after deducting the transaction costs and expenses will be used by the Group to bolster the Group's cash position and working capital to help fund certain investments into expanding distribution channels and additional marketing spend on the Company's core "LI NING"-branded product portfolio, as well as for general corporate purposes.

4. INFORMATION OF THE GROUP, THE VIVA CHINA GROUP AND THE DOUBLE HAPPINESS GROUP

The Group and the Vendor

The Vendor was incorporated in the PRC with limited liability, and is a wholly-owned subsidiary of the Company. The Group is one of the leading sports brand enterprises in the PRC offering a wide range of sporting goods such as footwear, apparel, accessories and equipment for professional and leisure uses predominantly under the "LI-NING" brand. It has its own branding, research and development, design, manufacturing, distribution and retail capabilities and has established an extensive retail distribution network in the PRC.

The Viva China Group and the Purchaser

The Purchaser is a limited company incorporated in Hong Kong and a wholly-owned subsidiary of Viva China, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the GEM of the Stock Exchange (stock code: 8032). The Viva China Group is principally engaged in (i) sports talent management, competition/event production and management and provision of sports consultancy services; and (ii) property and community development including sports-themed community. Viva China indirectly holds approximately 15.88% of the issued share capital of the Company and 66.5% of its issued share capital is deemed to be beneficially owned by Mr. Li Ning, the chairman of the Company.

The Double Happiness Group

Double Happiness is a Shanghai-based company incorporated in the PRC with limited liability. The Double Happiness Group is principally engaged in the manufacturing, research and development, marketing and sale of principally table tennis and badminton equipment under its own "紅雙喜 (Double Happiness)" brand and other sports accessories.

LETTER FROM THE BOARD

The audited net asset value of the Double Happiness Group as at 31 December 2014 was RMB304,649,956, and the audited net profit of the Double Happiness Group for the year ended 31 December 2014 and 31 December 2013 based on the Double Happiness Group's PRC audited accounts were as follows:

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Net profit before taxation and minority interest	RMB129,094,414	RMB108,823,945
Net profit after taxation and minority interest	RMB94,197,867	RMB79,411,210

5. REASONS FOR AND BENEFITS OF THE SHARE SALE AND THE ENTERING INTO OF THE OPTION AGREEMENT

The transaction results in cash proceeds of approximately RMB125 million, which represents 25% of the Company's reported interim net cash position as at 30 June 2015 of approximately RMB503 million, which comprises of approximately RMB1,757 million in cash less RMB1,254 million in total debt. These additional cash proceeds would allow for additional investment into product development of the Company's core "LI NING" brand portfolio, further expansion of the Company's distribution channels, and general corporate purposes. In addition, the transaction would be expected to crystallize an after-tax net gain in excess of RMB200 million, in part from the revaluation of the Company's remaining 47.5% stake in Double Happiness, which would have the effect of increasing the Company's shareholder equity and thus lowering its leverage ratio, which should provide increased debt capacity for future expansion or acquisitions.

Double Happiness is considered non-core brand and the Board does not consider the deconsolidation of that business from the Company's financial results a material factor. Furthermore, the Disposal is expected to provide Double Happiness with more flexibility in pursuing its own growth and capital market strategies, which may benefit the Group and its shareholders more in the future compared to maintaining an absolute majority control of Double Happiness going forward.

The transaction also increases transparency for investors with respect to the Company's "LI NING"-branded core business through the deconsolidation of Double Happiness, which would be accounted for using the equity accounting method going forward. A more transparent platform would also help align management incentives to focus on increasing the profitability of the "LI NING"-branded core business. In addition, at a valuation in line with market, the Disposal allows the Company to raise cash proceeds that can be reinvested into growth opportunities within the "LI NING"-branded core business.

The transaction also highlights the potential of Double Happiness as a standalone business and establishes a clear valuation benchmark for an attractive asset which otherwise may have been discounted/overlooked by investors. Furthermore, the Company's nominees on Double Happiness' board would decrease by one director, which importantly means they would no longer represent a clear majority on the board, further underscoring Double Happiness' flexibility to pursue its own strategic development.

LETTER FROM THE BOARD

By selling the 10% stake in Double Happiness to Viva China, a substantial Shareholder of the Company, the Company is more likely to share similar views with Viva China in terms of the strategy and operations of Double Happiness going forward than selling to a third party. In addition, other parties would also likely require, at a minimum, customary protections similar to those afforded by the Option Agreement but possibly at a higher accrual rate.

Mr. Li Ning, the Chairman and the Interim Chief Executive Officer of the Company, is deemed to be interested in approximately 66.5% of the total issued share Capital of Viva China and therefore abstained from voting at the board meeting for discussing the Share Transfer Agreement and the Option Agreement. The Directors (excluding Mr. Li Ning and the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee of this circular) believe that the terms of the Disposal (including the Consideration for the Share Sale) are fair and reasonable and in the interests of the Shareholders as a whole.

6. LISTING RULES IMPLICATIONS

Notifiable transaction

As one or more of the applicable percentage ratios in respect of the Share Sale are more than 5% and less than 25%, the Share Sale constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.74(1) of the Listing Rules, the grant of the Put Option (the exercise of which is not at the Company's discretion) will be classified as if the Put Option had been exercised. As one or more of the applicable percentage ratios in respect of any exercise of the Put Option are more than 5% and less than 25%, the grant of the Put Option constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.24 of the Listing Rules, as the Share Sale and the grant of the Put Option under the Share Transfer Agreement and the Option Agreement constitute one transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the acquisition or disposal, and subject to the reporting, disclosure and/or shareholder approval requirements applicable to such classification. Accordingly, the Share Sale and the grant of the Put Option are subject to the reporting and announcement requirements applicable to discloseable transaction under Chapter 14 of the Listing Rules.

The exercise of the Call Option is at the discretion of the Company. According to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium will be taken into consideration for the purpose of transaction classification. As no premium is payable for the grant of the Call Option to the Company, such grant will not constitute a notifiable transaction of the Company.

LETTER FROM THE BOARD

Connected transaction

In addition, Viva China, who indirectly holds approximately 15.88% Shares in the Company, is a substantial Shareholder and hence a connected person of the Company. The Purchaser, being a wholly-owned subsidiary of Viva China, is therefore a connected person of the Company. Accordingly, each of the Share Sale, the grant of the Put Option to the Purchaser and the grant of the Call Option to the Vendor constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Share Sale are more than 5% and less than 25% but the consideration is more than HK\$10,000,000, the Share Sale constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval and all disclosure requirements.

Pursuant to Rule 14A.79(1) of the Listing Rules, the grant of the Put Option (the exercise of which is not at the Company's discretion) will be classified as if the Put Option had been exercised. As one or more of the applicable percentage ratios in respect of any exercise of the Put Option are more than 5% and less than 25% but the consideration is more than HK\$10,000,000, the grant of the Put Option constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval and all disclosure requirements.

The exercise of the Call Option is at the discretion of the Company. According to Rule 14A.79(2) of the Listing Rules, the grant of the Call Option is classified based on the amount of the premium payable by the Company. As no premium is payable for the grant of the Call Option to the Company, such grant constitutes a fully-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is exempt from Independent Shareholders' approval and all disclosure requirements.

However, pursuant to Rule 14A.79(3) of the Listing Rules, at the time of exercise of the Call Option, the Company will be required to compute the percentage ratios in respect of the exercise of the Call Option, and the Company will be required to seek Independent Shareholders' approval for the exercise of the Call Option if one or more of the applicable percentage ratios at the time of exercise of the Call Option exceeds the threshold for de minimis exemptions under Chapter 14A of the Listing Rules.

As such, each of the Share Sale and the grant and exercise of the Put Option is subject to Independent Shareholders' approval at an extraordinary general meeting of the Company.

7. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 10:00 a.m. on Friday, 4 December 2015 at Star Room, Level 42, Cordis, Hong Kong at Langham Place, 555 Shanghai Street, Mongkok, Kowloon, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed herewith. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

Viva China (who indirectly holds approximately 15.88% Shares as at the Latest Practicable Date and controls the voting rights in respect of such shares) and its associates (including Mr. Li Ning, who holds approximately 0.1% Shares as at the Latest Practicable Date and controls the voting rights in respect of such Shares, and Alpha Talent Management Limited, a company wholly-owned by Mr. Li Ning which holds approximately 0.14% Shares as at the Latest Practicable Date and controls the voting rights in respect of such Shares) are required to abstain from voting on the resolutions in respect of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement.

All the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company on the poll results of the EGM as soon as possible after the conclusion of the EGM.

8. RECOMMENDATION

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement were agreed on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to give recommendations to the Independent Shareholders as to voting in respect of the resolutions to be proposed at the EGM to approve the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement, taking into account the advice from the Independent Financial Adviser.

The Board (excluding Mr. Li Ning but including the members of the Independent Board Committee, who have taken into account the advice of the Independent Financial Adviser) considers that the terms of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions for approving the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement at the EGM.

LETTER FROM THE BOARD

9. GENERAL

Your attention is drawn to the further information set out in this circular.

Yours faithfully
For and on behalf of the Board of
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

18 November 2015

To the Independent Shareholders

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED SALE OF 10% EQUITY INTEREST IN SHANGHAI DOUBLE
HAPPINESS CO., LTD. AND THE ENTERING INTO OF
THE OPTION AGREEMENT**

We refer to the circular issued by the Company to its shareholders dated 18 November 2015 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to advise the Independent Shareholders on whether the terms of the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement are on normal commercial terms after arm’s length negotiations between the parties, fair and reasonable so far as the Company and the Independent Shareholders are concerned and whether they are in the interest of the Company and the Shareholders taken as a whole.

Somerley has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to (i) the letter from the Board and (ii) the letter from the Independent Financial Adviser set out in the Circular. Having considered the principal factors and reasons considered by, and the opinion and advice of, the Independent Financial Adviser as set out in its letter of advice contained in the Circular, we consider that the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement are on normal commercial terms after arm’s length negotiations between the parties, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement at the EGM.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Koo Fook Sun, Louis
Dr. Chan Chung Bun, Bunny

Ms. Wang Ya Fei
Mr. Su Jing Shyh, Samuel

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter prepared by Somerley Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

18 November 2015

*To: The Independent Board Committee and Independent Shareholders of
Li Ning Company Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED SALE OF 10% EQUITY INTEREST IN SHANGHAI DOUBLE HAPPINESS CO., LTD. AND THE ENTERING INTO OF THE OPTION AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Share Sale and the grant and exercise of the Put Option under the Share Transfer Agreement and the Option Agreement. Details of the Share Transfer Agreement and the Option Agreement are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 18 November 2015 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 23 October 2015, the Share Transfer Agreement was entered into between the Vendor, a wholly-owned subsidiary of the Company and the Purchaser, a wholly owned subsidiary of Viva China pursuant to which the Vendor has agreed to sell and transfer the Sale Shares which represent 10% of the equity interest in Double Happiness to the Purchaser. On the same day, the Option Agreement was entered into between the Vendor, the Company and the Purchaser and Viva China pursuant to which the Vendor is granted the Call Option to purchase from the Purchaser, and the Purchaser is granted the Put Option to sell to the Vendor, the Sale Shares and their Derived Interests.

As stated in the Letter from the Board, the Vendor holds 57.5% of the issued share capital of Double Happiness, which has been accounted for as a subsidiary of the Company. Viva China, which indirectly holds approximately 15.88% of the issued share capital of the Company, is a substantial Shareholder and hence a connected person of the Company. The Purchaser, being a wholly-owned subsidiary of Viva China,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

is therefore a connected person of the Company. Accordingly, each of the Share Sale, the grant of the Put Option to the Purchaser and the grant of the Call Option to the Vendor constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Share Sale are more than 5% and less than 25% but the consideration is more than HK\$10,000,000, the Share Sale constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval and all disclosure requirements. Pursuant to Rule 14A.79(1) of the Listing Rules, the grant of the Put Option (the exercise of which is not at the Company's discretion) will be classified as if the Put Option had been exercised. As one or more of the applicable percentage ratios in respect of any exercise of the Put Option are more than 5% and less than 25% but the consideration is more than HK\$10,000,000, the grant of the Put Option constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval and all disclosure requirements.

The exercise of the Call Option is at the discretion of the Company. According to Rule 14A.79(2) of the Listing Rules, the grant of the Call Option is classified based on the amount of the premium payable by the Company. As no premium is payable for the grant of the Call Option to the Company, such grant constitutes a fully-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is exempt from Independent Shareholders' approval and all disclosure requirements. However, pursuant to Rule 14A.79(3) of the Listing Rules, at the time of exercise of the Call Option, the Company will be required to compute the percentage ratios in respect of the exercise of the Call Option, and the Company will be required to seek Independent Shareholders' approval for the exercise of the Call Option if one or more of the applicable percentage ratios at the time of exercise of the Call Option exceeds the threshold for de minimis exemptions under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel, has been established to advise the Independent Shareholders as to whether the terms of the Share Sale and the grant and exercise of Put Option are fair and reasonable and whether the Share Sale and the grant and exercise of Put Option are in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, Viva China, or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Share Sale and the grant and exercise of Put Option. Apart from normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, Viva China, or their respective substantial shareholders or associates.

In formulating our opinion and recommendation, we have reviewed, among other things, the Share Transfer Agreement, the Option Agreement, the annual report of the Company for year ended 31 December 2014 and the interim report of the Company for the six months ended 30 June 2015 (the "**2015 Interim Report**"), the audited consolidated financial statements of Double Happiness for the two years ended 31 December 2013 and 2014 prepared in accordance with the generally acceptable accounting principles in the PRC, the working capital projection of the Group, and the announcement of Viva China dated 25 October

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2015 as regards the Share Sale (the “**Viva China Announcement**”). We have also discussed with the management of the Group the businesses and future prospects of the Group as they may be affected by the Share Sale and the grant and exercise of Put Option.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or Double Happiness.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Business of the Group

The Group is one of the leading sports brand enterprises in the PRC offering a wide range of sporting goods such as footwear, apparel, accessories and equipment for professional and leisure uses predominantly under the “LI-NING” brand. It has its own branding, research and development, design, manufacturing, distribution and retail capabilities and has established an extensive retail distribution network in the PRC.

In addition to its core “LI-NING” brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis), AIGLE (outdoor sports) and Lotto (sports fashion) which are either self-owned by, licensed to or operated through joint ventures with third parties of, the Group.

2. Recent financial results of the Group

The following are summaries of the annual results and interim results of the Group for the years ended 31 December 2013 and 2014 and for the six months ended 30 June 2014 and 2015 respectively:

	For the six months ended 30 June		For the year ended 31 December	
	2015 <i>RMB million</i> (unaudited)	2014 <i>RMB million</i> (unaudited)	2014 <i>RMB million</i> (audited)	2013 <i>RMB million</i> (audited)
Turnover	3,640.7	3,137.1	6,727.6	5,824.1
Loss for the period/year attributable to the Shareholders	(29.4)	(585.8)	(781.5)	(391.5)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Turnover of the Group has increased by approximately 15.5% from RMB5,824.1 million in 2013 to RMB6,727.6 million in 2014 and the net loss attributable to the Shareholders increased by approximately 99.6% to RMB781.5 million. The increase in turnover was mainly attributable to the increase in trade fair orders and the positive growth of same-store-sales. Despite the positive growth of the turnover, the Group almost doubled the net loss for the year ended 31 December 2014 as compared to 2013, mainly due to the substantial increase of administrative expenses. The substantial increase in administrative expenses is attributable to (i) the provision of the impairment of trade receivables; (ii) the recruitment of more experienced management executives since the second half of 2013 and the granting of options to senior executives to accomplish the Company's reform and transformation; and (iii) the increase in operating lease rentals.

For the first half of 2015, turnover of the Group has increased by approximately 16.1% from RMB3,137.1 million in the corresponding period in 2014 to RMB3,640.7 million. The net loss attributable to the Shareholders decreased substantially from approximately RMB585.8 million in the first half of 2014 to RMB29.4 million in the corresponding period in 2015 due to the notable decrease in administrative expenses year-on-year as a result of (i) reversal of the provisions for impairment of trade receivables; and (ii) adjustment of the staff structure and reduction of options granted to the senior management personnel.

3. Recent financial position of the Group

Set out below is the summary of the financial position of the Group as at 31 December 2013, 31 December 2014 and 30 June 2015:

	As at 30 June 2015	As at 31 December 2014	As at 31 December 2013
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Total non-current assets	2,014.4	2,077.1	2,055.2
Total current assets, comprising	4,585.4	3,962.7	3,961.7
– Trade receivables	1,313.5	1,260.1	1,371.2
– Restricted bank deposits	0.7	2.6	2.1
– Cash and cash equivalents	1,756.9	1,031.4	1,280.7
Total non-current liabilities, comprising	1,181.1	1,191.2	1,107.4
– Borrowings	298.0	298.2	200.0
– Convertible bonds	693.2	676.4	645.7
Total current liabilities, comprising	2,042.7	2,679.1	2,017.7
– Trade payables	874.8	953.4	914.0
– Borrowings	250.0	550.8	200.0
– Convertible bonds – interest payable	12.5	12.5	12.5
Net assets value attributable to Shareholders	3,130.9	1,951.9	2,684.2

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's net asset value attributable to Shareholders decreased by 27.3% from RMB2,684.2 million as at 31 December 2013 to RMB1,951.9 million as at 31 December 2014, mainly due to the net loss incurred for the year ended 31 December 2014, and increased by 60.4% to RMB3,130.9 million as at 30 June 2015 following the completion of an open offer in January 2015 raising net proceeds of RMB1,229.9 million. As stated in the 2015 Interim Report, the Company has applied 38% of the net proceeds for paying down the Group's debts, and 8% for store network expansion and retail capabilities optimization and the Company will gradually utilize the remaining proceeds as planned which is mainly for store expansion and general working capital. As at 30 June 2015, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total 5,745, representing a net increase of 119 points of sales as compared to 31 December 2014, of which 90 are directly-operated retail stores and the balance are franchised retail stores. As indicated in the 2015 Interim Report, the Group will continue expanding the sales network based on market opportunities.

4. Reasons for and benefits of the Share Sale and the grant and exercise of Put Option

Reasons for and benefits of the Share Sale and the grant and exercise of Put Option as considered by the Board, which are set out in the Letter from the Board, could be summarized as follows:

- (i) The cash proceeds from the Share Sale of approximately RMB124.99 million will be used by the Group to bolster the Group's cash position and working capital to help fund certain investments into expanding distribution channels and additional marketing spend on the Company's core "LI NING"-branded product portfolio, as well as general corporate purposes. The Share Sale would unlock the value of Double Happiness by an after-tax net gain of approximately RMB260 million (calculated based on the carrying value of the net assets of Double Happiness as of 30 June 2015 for illustrative purposes only and subject to audit), from (a) the disposal gain arising from the sale of the 10% equity interest in Double Happiness amounting to approximately RMB45 million; and (b) the revaluation of the Company's remaining 47.5% stake in Double Happiness amounting to approximately RMB215 million; and
- (ii) by selling the 10% stake in Double Happiness to Viva China, a substantial Shareholder of the Company, the Company is more likely to share similar views with Viva China in terms of the strategy and operations of Double Happiness going forward than selling to a third party. In addition, other parties would also likely require, at a minimum, customary protections similar to those afforded by the Option Agreement but possibly at a higher accrual rate.

The use of proceeds from the Share Sale as mentioned above is in line with the Group's current business development as discussed in the section headed "3. Recent financial position of the Group" above and the working capital projection provided by the Company.

As at the date of the Share Transfer Agreement, there are three shareholders of Double Happiness including the Vendor. Pursuant to the Articles, the transfer of interest in Double Happiness by any of its shareholders is subject to right of first refusal by other shareholders. A waiver has been obtained from one of the other two shareholders of Double Happiness and we noticed that, as stated in such waiver, such shareholder of Double Happiness agreed to, amongst others, waive its right of first refusal as regards the Share Sale based on the fact the Purchaser is a related party to Mr. Li Ning. The Option Agreement is similar to the option arrangement along with a share transfer/subscription of significant interest in a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

company involving listed companies in Hong Kong such as Jiwa Bio-Pharm Holdings Limited and Goldbond Group Holdings Limited as discussed in the section headed “7. Analysis of the consideration for the Share Sale and the Put Option – (B) Put Option” below.

5. Principal terms of the Share Transfer Agreement and the Option Agreement

(A) *The Share Transfer Agreement*

Date: 23 October 2015

Parties:

- (1) the Vendor; and
- (2) the Purchaser,

(a) *Subject matter*

Pursuant to the Share Transfer Agreement, the Vendor agreed to sell, and the Purchaser agreed to acquire, the Sale Shares which represent 10% of the equity interest in Double Happiness, subject to and upon the terms and conditions of the Share Transfer Agreement.

Upon completion of the Share Sale, the Company will be interested in 47.5% of Double Happiness, which will cease to be its subsidiary and will be equity accounted for in the accounts of the Group.

(b) *Consideration for the Share Sale*

The consideration for the Share Sale is RMB124,992,000, which was determined after arm’s length negotiation with reference to a number of markets-based valuation metrics including but not limited to: price-earnings multiples, price-to-book multiples, and enterprise value-to-EBITDA multiples of comparable businesses; and similar multiples observed in precedent transactions of a comparable nature as well as those implied by the Company’s historic share price performance.

The Consideration is payable by the Purchaser by cash remittance in Hong Kong dollar equivalent (the exchange rate shall be the median exchange rate published by the People’s Bank of China on the date of the remittance) within 3 months of the issuance of the new business licence of foreign-invested enterprises for Double Happiness, subject to the full satisfaction or waiver (if applicable) of the Conditions of Payment.

(c) *Conditions precedent*

Completion of the Share Sale is subject to, among other things, (i) approval from Independent Shareholders required to be obtained under the Listing Rules; (ii) declaration by other shareholders of Double Happiness waiving their rights of first refusal; and (iii) approval from shareholders of Viva China. Based on the Viva China Announcement, written approval

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from a group of Viva China's shareholders, holding in aggregate 66.5% of the total issued share capital of Viva China, in respect of the Share Transfer Agreement and the Option Agreement and the transactions contemplated thereunder has been obtained. Upon Completion, the Purchaser will have the right to nominate one director to the board of Double Happiness, whereas the right of the Vendor to nominate 4 directors to the board of Double Happiness will be reduced to a right to nominate 3 directors.

Completion of the Share Sale will take place upon the completion of the necessary industrial and commercial registrations in relation to the Sale Shares and payment of the Consideration in accordance with the Share Transfer Agreement.

(B) *The Option Agreement*

Date: 23 October 2015

Parties:

- (1) the Vendor;
- (2) The Company;
- (3) the Purchaser; and
- (4) Viva China

(a) Subject matter

Pursuant to the Option Agreement, the Vendor, the Company and companies controlled by them are granted the Call Option to purchase, and the Purchaser, Viva China and companies controlled by them are granted the Put Option to sell, the Sale Shares and their Derived Interests subject to the conditions under the Option Agreement and both Call Option and Put Option are exercisable on the last date of the 4th year after the date of Completion.

(b) Premium and Exercise Price

No premium is payable for the grant of the Options.

The Exercise Price for the Options is calculated based on the Consideration plus 6.5% interest per annum after deducting the relevant dividend entitlements, the formula of which is as follows:

$\text{Consideration} \times (1+6.5\%)^4 - \text{total cash dividends received from Double Happiness from the date of Completion to the Exercise Date}$

(c) Conditions for Exercise

The exercise of any of the Options is conditional upon, amongst others, (i) Double Happiness (or any of its holding company subsequently formed) not having been listed on any major stock exchanges within 4 years of the Completion; (ii) shareholders' approvals

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

concerning the Options pursuant to the Listing Rules or GEM Listing Rules; and (iii) the obtaining of the declaration from other shareholders of Double Happiness waiving the rights of first refusal then.

If the Conditions for Exercise are not fulfilled on or before the Exercise Date, the Option Agreement shall terminate automatically unless the parties agree otherwise in writing.

(d) Other terms

The Purchaser, Viva China and companies controlled by them will not sell the Sale Shares or their Derived Interests on or before the Exercise Date to any third parties, other than any of the Purchaser, Viva China and companies controlled by them, without the prior consent of the other parties to the Option Agreement.

6. Information on Double Happiness

(a) Background and business of Double Happiness

Double Happiness is established in the PRC as a limited liability company as to 57.5% owned by the Company and 42.5% owned by two other shareholders as at the date of the Share Transfer Agreement. Upon Completion, Double Happiness will be held as to 47.5% by the Vendor, 10.0% by the Purchaser and 42.5% by the other two shareholders.

Double Happiness is a Shanghai-based company incorporated in the PRC and, together with its subsidiaries, is principally engaged in research and development, manufacturing, promotion and distribution of table tennis and badminton equipment under its own “紅雙喜 (Double Happiness)” brand, a leading table tennis brand. It is the largest manufacturer of table tennis equipment in the PRC and a sponsor of many international tournaments and world class athletes in the table tennis sector in the PRC. Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores.

(b) Financial information of Double Happiness

(i) Financial results of Double Happiness

Set out below is the audited net profit of the Double Happiness Group for the two years ended 31 December 2013 and 31 December 2014 reproduced from the Letter from the Board:

	For the year ended 31 December	
	2014	2013
	RMB	RMB
Net profit before taxation and minority interest	129,094,414	108,823,945
Net profit after taxation and minority interest	94,197,867	79,411,210

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Double Happiness reported the net profit before taxation and after taxation of RMB129,094,414 and RMB94,197,867 for the year ended 31 December 2014, representing increases of 18.6% and 18.6% as compared to 2013. Based on our discussion with the management of the Group, the improvement in the financial results was mainly due to the increase in revenue and improvement in gross profit margin as a result of the decrease in the cost of major raw materials.

(ii) *Net asset value of Double Happiness*

The audited consolidated net asset value of Double Happiness as at 31 December 2014, prepared in accordance with the generally acceptable accounting principles in the PRC, was approximately RMB304,649,956). The majority of the assets of Double Happiness comprised the property, plant and equipment, land use rights, inventories and cash. The operation of Double Happiness was largely funded by shareholders' equity and the remaining balance generally financed by short-term bank borrowings and notes and trade and other payable.

7. **Analysis of the consideration for the Share Sale and the Put Option**

As stated in the Letter from the Board, the consideration for the Share Sale was determined with reference to a number of markets-based metrics. Given Double Happiness has been profitable over the years, both price-to-earnings ratio ("**P/E ratio**") and enterprise multiple ("**EV/EBITDA ratio**") are considered appropriate in the context of valuation for the industry in which Double Happiness operates. We have looked at both comparable transactions involving unlisted target companies and comparable listed companies in Hong Kong and the sample size of which is considered to be sufficient for us to arrive at our opinion as regards the fairness and reasonableness of the Share Sale.

(A) *Share Sale*

In assessing the fairness and reasonableness of the Consideration, we have reviewed and identified the comparable transactions in the last five years involving (i) sale and purchase of sports equipment (excluding golf) manufacturers; and (ii) the target companies which are unlisted, which are broadly comparable to the business nature and circumstances of Double Happiness. The selected comparable transactions, in our view, are fair and representative samples for comparison. We have summarised the aforesaid comparable transactions with their respective P/E ratio in the table below.

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Date of announcement	Purchaser	Seller(s)	Target	Principal activities of the target	Percentage of disposal	Location of the target	P/E ratio (times)
23 Jan 2015	Youngone Corporation (111770.KS)	Beat Zaugg (a private investor)	Scott Sports SA	Manufacturing of biking products	30.01%	Switzerland	18.0
28 Jun 2013	Youngone Corporation (111770.KS)	n.a.	Scott Sports SA	Manufacturing of biking products	20.00%	Switzerland	11.2
21 Jun 2012	Mizuno Corporation (8022.T)	Regional Economy Vitalization Corporation of Japan	Senoh Corporation	Manufacturing of hard-ware sports and exercise equipment	100.00%	Japan	10.1
Average							13.1
Median							11.2
Maximum							18.0
Minimum							10.1
The Share Sale							13.3

Source: Mergermarket and respective companies' news release

Note:

- No such financial information is available from the Mergermarket or respective companies' news release in arriving at EV/EBITDA ratio.

As shown above, the historical P/E ratios of the three comparable transactions ranged from approximately 10.1 times to 18.0 times, with the mean of 13.1 times. The first two transactions in the above table refer to the same target and buyer with the latter transaction in 2015 carrying a higher valuation multiple. Such higher multiple, in our view, might be attributable to the premium paid to obtain control of the target company by such buyer Youngone Corporation.

The consideration for the Share Sale of RMB124.99 million for the 10% stake in Double Happiness represented a historical P/E ratio of approximately 13.3 times, based on the consolidated net profit of Double Happiness for the year ended 31 December 2014 of approximately RMB94.20 million, which is higher than those for Senoh Corporation in 2012 and Scott Sports SA in 2013 and slightly higher than the mean of all comparable transactions.

We have also assessed the consideration for the Share Sale against comparable listed companies in the sector. We have identified the following listed companies in Hong Kong which are engaged in the business of sports apparel, footwear and accessories in their respective latest financial year that are broadly comparable to Double Happiness. The selected comparable Hong Kong listed companies, in our view, are fair and representative samples for comparison. Their respective P/E ratios and EV/EBITDA ratios are set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Principal activities	Market capitalisation (HK\$ million) (Note 1)	P/E ratio (times) (Note 2)	EV/EBITDA ratio (times) (Note 3)
Xtep International Holdings Limited (1368)	Design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products	8,682.7	15.0	5.4
361 Degrees International Limited (1361)	Manufacturing and sales of sporting goods, including footwear, apparel and accessories in the PRC	5,768.6	12.0	2.9
Hosa International Limited (2200)	Design and produce a wide range of mid-to-high end sportswear products, including swimwear, fitness wear, sports underwear and accessories	5,141.6	10.5	6.0
Peak Sport Products Co Limited (1968)	Manufacturing and distribution of sports products including footwear, apparel and accessories	5,327.2	13.7	3.1
		Mean	12.8	4.4
		Median	12.9	4.3
		Maximum	15.0	6.0
		Minimum	10.5	2.9
		The Share Sale	13.3	7.7

Notes:

- The market capitalization is calculated based on the closing prices of the respective companies on 23 October 2015, being the date of the Share Transfer Agreement.
- The P/E ratios are calculated based on the market capitalisation divided by the consolidated net profit for the latest financial year (i.e. year ended 31 December 2014).
- The EV/EBITDA ratios are calculated based on the enterprise value (i.e. market capitalisation plus non-controlling interest minus net cash position as at 31 December 2014) divided by the consolidated earnings before interest, tax, depreciation and amortization for the latest financial year (i.e. year ended 31 December 2014).
- The Company (stock code: 2331) and Meike International Holdings Limited (stock code: 953) are excluded in the above table as both companies were loss-making for the latest financial year. ANTA Sports Products Limited (stock code: 2020) is excluded in the above table as it is considered outlier with market capitalisation of HK\$48,851.2 million, P/E ratio of 23.7 times and EV/EBITDA ratio of 16.1 times which are substantially higher than the comparable listed companies in the above table.

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China Dongxiang (Group) Co., Ltd. (stock code: 3818) is excluded in the above table as its valuation and business nature would be, in our view, different from the rest of the listed comparable companies as (i) it recorded a substantial amount of gain on disposal of available-for-sale financial assets which accounted for 80% of its net profit attributable to shareholders for the year ended 31 December 2014; and (ii) 38.4% of its consolidated total assets was attributable to available-for-sale financial assets as at 30 June 2015.

The historical P/E ratios of the comparable listed companies ranged from approximately 10.5 times to 15.0 times, with the mean of 12.8 times. The P/E ratio of Double Happiness represented by the Share Sale falls within the range of those comparable listed companies and is slightly higher than their mean. The EV/EBITDA ratio of Double Happiness of 7.7 times is above the range of the comparable listed companies of 2.9 times to 6.0 times and the mean of the comparable listed companies of 4.4 times.

On the basis that (i) the P/E ratio of the Share Sale falls within the ranges of the multiples for the comparable transactions and comparable listed companies; (ii) P/E ratio represented by the Share Sale is slightly higher than the means of P/E ratios of both the comparable transactions and listed comparable companies; (iii) EV/EBITDA ratio represented by the Share Sale is above the range and the mean of the listed comparable companies; and (iv) valuation of the comparable listed companies might considerably be higher in view of their listing status, we consider the consideration of the Share Sale to be reasonable as compared to the comparable transactions and comparable listed companies.

(B) Put Option

The Exercise Price for the Put Option is calculated based on the following:

The Consideration x $(1+6.5\%)^4$ – the total cash dividends received by the Purchaser from Double Happiness from the date of Completion to the Exercise Date

The basis of the above formula, in our view, is very similar to pay back to the Purchaser the amount due (i.e. the Consideration) together with the interests accrued on the 4th anniversary date of Completion when the Put Option is exercised in the event that Double Happiness (or its holding company) has not been listed on any major stock exchanges within 4 years of the Completion. As stated in the 2015 Interim Report, the weighted average effective interest rates per annum of the Group's borrowings were 6.93% for bank borrowings denominated in RMB and 6.2% for those borrowings denominated in other currencies for the six months ended 30 June 2015. The interest of 6.5% per annum less the total cash dividends received by the Purchaser from Double Happiness during the period for calculating the Exercise Price is therefore reasonable.

We have also noted that granting investor(s) the right to put the purchased/subscribed shares to the original shareholder(s) at investment cost plus a redemption premium if the investee company fails to achieve listing on any major stock exchanges before the agreed timeline is found in some precedent cases. In similar transactions involving Hong Kong listed companies such as Jiwa Bio-Pharm Holdings Limited (stock code: 2327, now known as U-Home Group Holdings Limited) in February 2011 and Goldbond Group Holdings Limited (stock code: 172) in August 2011, the incoming investor(s) has been granted the rights to request the original shareholder(s) to redeem its

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interest in the investee company at a price equal to the investment amount plus the rate of around 10-20% per annum if the investee company does not obtain a listing on a stock exchange within a specified timeframe.

Having considered (i) the interest of 6.5% per annum less the cash dividends is in line with the Group's prevailing borrowing cost; (ii) the mechanism of the Put Option is comparable to similar transactions involving Hong Kong listed companies; and (iii) the premium of 6.5% under the Put Option compares favourably to those of the precedent cases, we are of the view that the provision of such redemption premium to be fair and reasonable.

8. Financial effects of the Share Sale on the Group

(a) Earnings

At present, Double Happiness's financial statements have been consolidated in the financial statements of the Company. Upon Completion, Double Happiness will cease to be a subsidiary of the Company and its results will be equity accounted for in the Group's accounts. The Company would cease to consolidate the revenue of the Double Happiness Group and the attributable net profit of the Double Happiness Group to be recorded by the Group would be decreased from 57.5% to 47.5%.

As set out in the Letter from the Board, after taking into account the Consideration for the Sale Share, net carrying amount of the assets and liabilities of the Double Happiness Group as at the date of the Share Transfer Agreement, and the related transaction costs, the Company is expecting a disposal net gain of approximately RMB260 million based on management's preliminary estimates, subject to the finalization of the audit.

(b) Equity attributable to the Shareholders

As at 30 June 2015, the net assets value attributable to Shareholders amounted to approximately RMB3,130.9 million, which has included the Group's share (i.e. 57.5%) of the net assets of Double Happiness. Upon Completion, Double Happiness will cease to be a subsidiary of the Company and, accordingly, the entire consolidated assets and liabilities of Double Happiness will be equity accounted for in the financial statements of the Group. As set out in the Letter from the Board, the Share Sale is expected to crystallize an after-tax net gain of RMB260 million, in part from the revaluation of the Company's remaining 47.5% stake in Double Happiness, which would have the effect of increasing the Company's shareholder equity.

(c) Net debt

According to the 2015 Interim Report, as at 30 June 2015, the gearing ratio of the Group, illustrated as the ratio of outstanding bank borrowings and convertible bonds to equity attributable to the Shareholders was 40.0%. As mentioned in paragraph (b) above, the revaluation of the Company's remaining 47.5% stake in Double Happiness is expected to have the effect of increasing the Company's shareholder equity, and thus lowering its leverage ratio.

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DISCUSSION AND ANALYSIS

Double Happiness, which was acquired by the Group in 2008, has been profitable over the years. It is principally engaged in manufacturing, research and development and sale of mainly table tennis and badminton equipment under its own “紅雙喜 (Double Happiness)” brand, a leading table tennis brand. The investment cost of the Group in 57.5% interest of Double Happiness was RMB341.3 million and such interest has been booked at cost in its accounts since then. Despite Double Happiness, which has been making profit, will be deconsolidated from the Group’s account upon Completion, the Share Sale, which values the entire interest of Double Happiness at RMB1,249.9 million, would not only enable the Group to unlock the value of its investment in Double Happiness based on the valuation comparable to the Hong Kong listed comparable companies but also underpin parties’ intention with respect to Double Happiness as implied under the Option Agreement as discussed below by allowing flexibilities in pursuing its own growth and capital market strategies, which is in the interests of the Company and its Shareholders as a whole on a longer term basis. The valuation of Double Happiness has increased by 110.6% as compared to the acquisition cost of the Group. It is expected that the Group will generate an after-tax net gain of approximately RMB260 million upon completion of the Share Sale, which will also increase the Company’s shareholder equity and lower its leverage ratio.

The Purchaser is wholly-owned by Viva China which is a substantial Shareholder and is in turn held as to 66.5% by Mr. Li Ning. The Share Sale is subject to the waivers of the other two shareholders of Double Happiness to waive their rights of first refusal. One of the shareholders has provided a waiver for its right of first refusal as regards the Share Sale based on the fact the Purchaser is a related party to Mr. Li Ning. The Board considers Viva China, which is principally engaged in sports talent management, competition/event production and management and development of sports-theme community, is more likely to share similar views with the Group in terms of the strategy and operations of Double Happiness going forward than selling to a third party. In Viva China Announcement, the board of Viva China expects that closer cooperation between Viva China and Double Happiness in terms of strategy alignment and resources deployment and Double Happiness could benefit from Viva China’s expertise and resources in professional sporting events management and access to a sportive population.

The P/E ratio of the Share Sale of approximately 13.3 times is slightly higher than the means of the P/E ratios of the comparable transactions and comparable listed companies of approximately 13.1 times and 12.8 times respectively while the EV/EBITDA ratio of the Share Sale of approximately 7.7 times is above the mean and the range of comparable companies of approximately 4.4 times and 2.9-6.0 times respectively.

In the past, the Group invested its resources mainly in product development and channel construction. The research and product development cost to revenue has been consistently above 2% per year since 2012 and the number of the directly operated retail stores has been growing from 760 in 2011 to 1,292 in the first half of 2015. As mentioned in the 2015 Interim Report, the Company have opportunities for opening over 100 new points of sales in 2015. The use of cash proceeds from the Share Sale of RMB124.99 million for product development and expansion of distribution channel is consistent with the business plan of the Group.

The entering into of the Option Agreement is to give the rights to each of the Vendor and the Purchaser to unwind the Share Sale in the event Double Happiness (or its holding company) has not been listed on any major stock exchanges within 4 years of the Completion. The grant of similar options along with a share transfer/subsorption is not uncommon in the market such as U-Home Group Holdings Limited

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(formerly known as Jiwa Bio-Pharm Holdings Limited) and Goldbond Group Holdings Limited, both in 2011. The basis of the Exercise Price, in our view, is very similar to pay back to the Purchaser the amount due (i.e. the Consideration) together with the interests accrued on the 4th anniversary date of Completion and the interest of 6.5% per annum less cash dividend received by the Purchaser during the four-year period is reasonable having considered the Group's borrowing cost as stated in the 2015 Interim Report.

OPINION

Based on the above principal factors and reasons, although the Share Sale and the grant and exercise of Put Option are not in the ordinary and usual course of business of the Group, we consider that the terms of the Share Sale and the grant and exercise of Put Option contemplated under the Share Transfer Agreement and the Option Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Independent Shareholders so far as the Company and the Independent Shareholders as a whole are concerned. Therefore, we advise the Independent Board Committee to recommend, and we ourselves also recommend, the Independent Shareholders to vote in favour of the resolution in relation to the Share Sale and the grant and exercise of the Put Option contemplated under the Share Transfer Agreement and the Option Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

1. INTERESTS AND SHORT POSITIONS OF DIRECTORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(a) Interest of Directors and Chief Executives of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or are required to be entered in the register maintained in

accordance with Section 352 of the SFO, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Approximate % of total issued Shares*	
				Total	(Long Position)
Li Ning	Personal interest & Interests of controlled corporations	303,876,053 (Note 1)	252,707,086 (Note 1)	556,583,139	29.52%
Chen Yue, Scott	Personal interest	–	344,743 (Note 2)	344,743	0.02%
Koo Fook Sun, Louis	Personal interest	489,387	595,616 (Note 2)	1,085,003	0.06%
Wang Ya Fei	Personal interest	491,645	595,616 (Note 2)	1,087,261	0.06%
Chan Chung Bun, Bunny	Personal interest	268,387	595,616 (Note 2)	864,003	0.05%
Su Jing Shyh, Samuel	Personal interest	–	344,743 (Note 2)	344,743	0.02%

* The percentage has been calculated based on 1,885,429,750 Shares in issue as at the Latest Practicable Date.

Notes:

1. Mr. Li Ning (“**Mr. Li**”) is interested in 303,876,053 Shares, among which 1,940,933 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China Holdings Ltd (“**Viva China BVI**”) and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 252,707,086 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 1,370,073 Shares are unvested restricted shares granted by the Company, and (iii) total amount of HK\$722,478,136 of convertible securities held by Viva China BVI which is entitled to the conversion of 249,827,543 Shares. Details are as follows:
 - (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares, and 249,827,543 underlying Shares, which comprise (i) the convertible securities in the total amount of HK\$398,156,304 entitling to the conversion of 125,088,377 Shares at the conversion price of HK\$3.183 each, and (ii) the convertible securities in the total amount of HK\$324,321,831.60 entitling to the conversion of 124,739,166 Shares at the conversion price of HK\$2.60 each. Viva China is owned as to approximately 14.67% by Victory Mind Assets Limited (“**Victory Mind**”), approximately 24.43% by Lead Ahead Limited (“**Lead Ahead**”) and approximately 27.50% by Dragon City Management (PTC) Limited (“**Dragon City**”) respectively. Each of Lead Ahead and Dragon City is owned as to 60% and 60% by Mr. Li respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor). As a result, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also the chairman and chief executive officer of Viva China.

- (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.
- (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme of the Company at an exercise price of HK\$6.35 each and 1,370,073 unvested restricted shares under the Restricted Share Award Scheme.
2. The underlying shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme of the Company.

(b) Interest of substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person (other than the Directors or Chief Executives of the Company) who had any interest or short position in the shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 (Note 1)	29.13%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 (Note 1)	29.13%
David Bonderman	Interest of controlled corporations	53,000,000	229,634,281	282,634,281 (Note 2)	14.99%
James G. Coulter	Interest of controlled corporations	53,000,000	229,634,281	282,634,281 (Note 2)	14.99%

Notes:

1. Viva China Holdings, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares, and 249,827,543 underlying Shares, which comprise (i) the convertible securities in the total amount of HK\$398,156,304 entitling to the conversion of 125,088,377 Shares at the conversion price of HK\$3.183 each, and (ii) the convertible securities in the total amount of HK\$324,321,831.60 entitling to the conversion of 124,739,166 Shares at the conversion price of HK\$2.60 each. Viva China is owned as to approximately 14.65% by Victory Mind, approximately 24.40% by Lead Ahead and approximately 27.47% by Dragon City respectively. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li Ning and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li Ning is a

settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settler). Therefore Mr. Li Chun is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. He is the brother of Mr. Li Ning.

2. TPG Stallion, L.P. (“TPG”) is interested in 53,000,000 Shares and 229,634,281 underlying Shares, which comprise (i) the convertible bonds with the principal amount of RMB561,000,000 due 2017 entitling to the conversion in aggregate of 168,629,032 Shares, (ii) the convertible securities in the total amount of HK\$123,888,471 entitling to the conversion in aggregate of 38,921,919 Shares at the conversion price of HK\$3.183 each, and (iii) the convertible securities in the total amount of HK\$57,416,658 entitling to the conversion in aggregate of 22,083,330 Shares at the conversion price of HK\$2.60 each. TPG is wholly owned by TPG Asia Advisors V, Inc. and, in turn, it is owned as to 50% by Mr. David Bonderman and 50% by Mr. James G. Coulter.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

2. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Group have been made up.

4. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. MATERIAL INTEREST IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

7. EXPERT

- (a) The following are the qualifications of the expert who has given an opinion or advice which is contained in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation under the SFO for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, the above expert did not have any shareholding directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and it had no interest, either directly or indirectly, in any assets which have been, since 31 December 2014 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their reports and reference to their names in the form and context in which they appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business, Hong Kong during normal business hours (public holidays excepted) from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this circular;
- (b) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 35 of this circular;
- (c) the Share Transfer Agreement;
- (d) the Option Agreement;
- (e) the annual reports of the Company for the three years ended 31 December 2014;

- (f) the memorandum of association and articles of association of the Company;
- (g) the written consent referred to in the paragraph headed “EXPERT” in this appendix; and
- (h) this circular.

9. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**” or “**Meeting**”) of Li Ning Company Limited (the “**Company**”) will be held at Star Room, Level 42, Cordis, Hong Kong at Langham Place, 555 Shanghai Street, Mongkok, Kowloon, Hong Kong on Friday, 4 December 2015 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 18 November 2015 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. “**THAT:**

- (i) the Share Sale contemplated under the Share Transfer Agreement dated 23 October 2015 entered into between the Vendor and the Purchaser in respect of the sale and purchase of the Sale Shares which represents 10% of the equity interest in Double Happiness (a copy of which marked “A” has been produced to the Meeting and initialled by the chairman of the Meeting for the purposes of identification) be and is hereby approved, confirmed and ratified;
- (ii) any one or more directors of the Company (“**Director(s)**”) be and is/are hereby authorized to exercise all the powers of the Company and to take all such steps, to do all such acts and things, to sign and execute all such documents or agreements or deeds on behalf of the Company and to do such other things and to take such other actions as he/she/they consider necessary, appropriate, desirable or expedient for the purposes of carrying out or giving effect to or in connection with the Share Sale contemplated under the Share Transfer Agreement, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of such Director(s), in the interests of the Company and its shareholders as a whole.”

2. “**THAT:**

- (i) subject to and conditional upon the passing of resolution numbered 1 above, the grant and exercise of the Put Option contemplated under the Option Agreement dated 23 October 2015 entered into between the Vendor, the Company, the Purchaser and Viva China pursuant to which, among other things, the Purchaser, Viva China and companies controlled by them are granted the Put Option to sell to the Vendor, the Company and companies controlled by them, the Sale Shares and their Derived Interests (a copy of

NOTICE OF EXTRAORDINARY GENERAL MEETING

which marked “B” has been produced at the Meeting and initialled by the chairman of the Meeting for the purposes of the identification) be and is hereby approved, confirmed and ratified;

- (ii) any one or more Directors be and is/are hereby authorized to exercise all the powers of the Company and to take all such steps, to do all such acts and things, to sign and execute all such documents or agreements or deeds on behalf of the Company and to do such other things and to take such other actions as he/she/they consider necessary, appropriate, desirable or expedient for the purposes of carrying out or giving effect to or in connection with the grant and exercise of the Put Option contemplated under the Option Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of such Director(s), in the interests of the Company and its shareholders as a whole.”

By order of the Board
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer

Hong Kong, 18 November 2015

Notes:

1. A shareholder entitled to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint one or more proxies to attend and, subject to the provisions of the Articles of Association of the Company, vote in his or her stead. A proxy need not be a shareholder of the Company.
2. A form of proxy for use at the EGM (or at any adjournment thereof) is despatched together with this notice of meeting. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the offices of the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
4. Where there are joint registered holders of any Share(s), any one of such joint holders may attend and vote at the meeting (or any adjournment thereof), either in person or by proxy, in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting or any adjournment thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. If typhoon signal no.8 or above remains hoisted or a black rainstorm warning signal is in force at 8:00 a.m. at the date of the EGM, the EGM will be postponed.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Shareholders are requested to visit the website of the Company at <http://ir.lining.com> for details of alternative meeting arrangements.

The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

Shareholders who have any queries concerning the alternative meeting arrangements, please call the Company at (852) 3541 6000 during business hours from 9:00 a.m. to 5:00 p.m. on Mondays to Fridays, excluding public holidays.

Shareholders should make their own decision as to whether they would attend the EGM under bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.

6. As at the date hereof, the executive director of the Company is Mr. Li Ning. The non-executive directors are Mr. Chen Yue, Scott and Mr. Wu, Jesse Jen-Wei. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.