
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in 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 bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser.

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CONNECTED AND DISCLOSEABLE TRANSACTIONS
DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY
AND
ASSIGNMENT OF DEBT RELATED TO SUCH DISPOSAL

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



A letter from the Board is set out on pages 4 to 16 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from Access Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 31 of this circular.

A notice convening the Extraordinary General Meeting to be held on Thursday, 11 August 2005 at 10:00 a.m. at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 41 to 42 of this circular. This circular is also enclosed with the form of proxy.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting.

Completion and return of the form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting should you so wish.

25 July 2005

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meaning:

“Access Capital”	Access Capital Limited, a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Assignment;
“Assignment”	the assignment by Shanghai Li Ning to Shanghai Tai Tan of the debts in the aggregate sum of RMB36,200,000 owed by Beijing Dong Xiang to Shanghai Li Ning under the Assignment Agreement;
“Assignment Agreement”	the agreement dated 30 June 2005 entered into between Shanghai Li Ning and Shanghai Tai Tan;
“associate”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“BasicNet”	BasicNet S.p.A., a company incorporated under the laws of Italy and listed on the Milan Stock Exchange;
“BasicNet Group”	BasicNet and companies or entities ultimately controlled in whole or in part by BasicNet;
“Beijing Dong Xiang”	北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.), a limited liability company established in the PRC;
“Board”	the board of Directors;
“Company”	Li Ning Company Limited whose shares are listed on the Hong Kong Stock Exchange;
“Directors”	the directors of the Company;
“Disposal”	the disposal of 80% equity interest in Beijing Dong Xiang by Shanghai Yue Ao to Shanghai Tai Tan under the Equity Transfer Agreement;

DEFINITIONS

“Extraordinary General Meeting” or “EGM”	extraordinary general meeting of the Company to be held on 11 August 2005 or any adjournment thereof;
“Equity Transfer Agreement”	the agreement dated 30 June 2005 entered into between Shanghai Yue Ao and Shanghai Tai Tan;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	an independent committee of the Directors appointed to advise the Independent Shareholders in respect of the Disposal and the Assignment;
“Independent Shareholders”	shareholders of the Company other than Mr. CHEN Yi Hong, Mr. CHEN Yi Liang, Ms. LIU Pei Ying and Mr. QIN Da Zhong and their respective associates;
“KAPPA License Agreements”	the licence and distribution agreement and know-how licence agreement dated 14 February 2002 between the BasicNet Group and Beijing Dong Xiang under which Beijing Dong Xiang is the exclusive distributor of KAPPA branded products, and is given the exclusive rights to use the KAPPA branded and related product know-how from the BasicNet Group, in the PRC (including Macau but excluding Hong Kong and Taiwan) until 31 December 2007;
“Lastest Practicable Date”	22 July 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong;
“Shanghai Lei De”	上海雷德體育發展有限公司 (Shanghai Lei De Sports Development Co., Ltd.), a limited liability company established in the PRC, which is owned by Mr. CHEN Yi Hong and his brother Mr. CHEN Yi Liang;
“Shanghai Li Ning”	李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited), a wholly foreign owned enterprise established in the PRC;
“Shanghai Tai Tan”	上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a limited liability company established in the PRC;
“Shanghai Yue Ao”	上海悅奧體育用品有限公司(Shanghai Yue Ao Sporting Goods Co., Ltd.), a limited liability company established in the PRC;
“Share(s)”	Share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholders”	the shareholders of the Company;
“Supplemental Agreements”	the supplemental agreements to the KAPPA License Agreements dated 31 December 2002 entered into between the BasicNet Group, Beijing Dong Xiang and Shanghai Li Ning in the capacity as the indirect holding company of Beijing Dong Xiang, under which Shanghai Li Ning is bound by the KAPPA License Agreements with certain exceptions;
“US\$”	United States Dollars, the lawful currency of the United States of America;
“%”	per cent.

Note: Where amounts in Hong Kong dollars have been derived from Renminbi or United States dollars, such translations are for the convenience of the readers only. Except as otherwise indicated, amounts in Hong Kong dollars have been made at the rate of RMB1.065 to HK\$1.00 and US\$1.00 to HK\$7.80. No representation is made that Renminbi or United States dollar amounts could have been or could be converted into Hong Kong dollars at this rate or any other rate or at all.

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:

LI Ning
ZHANG Zhi Yong
TAN Wee Seng
CHEN Yi Hong

Non-executive Directors:

LIM Meng Ann
Stuart SCHONBERGER
FONG Ching, Eddy

Independent non-executive Directors:

KOO Fook Sun, Louis
WANG Ya Fei
CHAN Chung Bun, Bunny

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681GT
George Town
Grand Cayman
British West Indies

*Principal place of
business in Hong Kong:*

Suites 2804-5
Shell Tower
Times Square
Causeway Bay
Hong Kong

25 July 2005

To the Shareholders

Dear Shareholders,

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY
AND
ASSIGNMENT OF DEBT RELATED TO SUCH DISPOSAL**

1. INTRODUCTION

On 30 June 2005, the Directors announced that Shanghai Yue Ao and Shanghai Li Ning, the indirect wholly owned subsidiaries of the Company, entered into the Equity Transfer Agreement and the Assignment Agreement respectively with Shanghai Tai Tan.

LETTER FROM THE BOARD

A. The Disposal and the Equity Transfer Agreement

Pursuant to the Equity Transfer Agreement, Shanghai Yue Ao (a subsidiary of the Company) agreed to transfer its 80% equity interest in Beijing Dong Xiang (currently also a subsidiary of the Company) to Shanghai Tai Tan at the consideration of RMB8,614,000 (equivalent to approximately HK\$8,088,300).

B. The Assignment and the Assignment Agreement

Concurrent with the Disposal, Shanghai Li Ning (also a subsidiary of the Company) agreed to assign, pursuant to the Assignment Agreement, all its rights in the outstanding debts owed to it by Beijing Dong Xiang to Shanghai Tai Tan at the consideration of RMB36,200,000 (equivalent to approximately HK\$33,990,600).

The aggregate consideration to be received by the Group for the Disposal and the Assignment is RMB44,814,000 (equivalent to approximately HK\$42,078,900). The total consideration shall be paid in cash by Shanghai Tai Tan in one payment within 14 days after the Equity Transfer Agreement and the Assignment Agreement become effective.

C. Connected and discloseable transactions

As Shanghai Tai Tan is a company as to 93% owned by Mr. CHEN Yi Hong (an executive Director) and his spouse, it is therefore a connected person of the Company constituting the Disposal and the Assignment connected and discloseable transactions under the Hong Kong Listing Rules. Accordingly, the Disposal and the Assignment are subject to the approval of the Independent Shareholders at the EGM to be convened and Mr. CHEN Yi Hong, Mr. CHEN Yi Liang, Ms. LIU Pei Ying, Mr. QIN Da Zhong and their respective associates will abstain from voting at the EGM.

D. Independent Shareholders' approval and independent financial adviser

The Independent Board Committee has been formed to consider the terms of the Disposal and the Assignment. The letter from the Independent Board Committee to the Independent Shareholders is included in this circular.

Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Disposal and the Assignment are fair and reasonable in so far as the Independent Shareholders are concerned. The letter of advice of Access Capital to the Independent Board Committee and the Independent Shareholders is also included in this circular.

LETTER FROM THE BOARD

2. THE DISPOSAL

A. Date of the Equity Transfer Agreement

30 June 2005

B. The Disposal

Pursuant to the Equity Transfer Agreement entered into between Shanghai Yue Ao and Shanghai Tai Tan, Shanghai Yue Ao has agreed to sell its entire equity interest (which equals to 80%) in Beijing Dong Xiang to Shanghai Tai Tan.

Beijing Dong Xiang is currently held as to 80% by Shanghai Yue Ao (which is an indirect wholly owned subsidiary of the Company) and 20% by Shanghai Lei De (which is owned by Mr. CHEN Yi Hong and his brother, Mr. CHEN Yi Liang).

C. Business of Beijing Dong Xiang

Beijing Dong Xiang is primarily engaged in the development, manufacturing, sales and distribution of all products related to, named or associated with the KAPPA brand.

Pursuant to the KAPPA License Agreements dated 14 February 2002, Beijing Dong Xiang is the exclusive distributor of KAPPA branded products, and is given the exclusive rights to use the KAPPA branded and related product know-how from the BasicNet Group, in the PRC (including Macau but excluding Hong Kong and Taiwan) until 31 December 2007. Beijing Dong Xiang's major assets are the licensing rights under the KAPPA License Agreements. The KAPPA brand is currently owned by the BasicNet Group which operates in the sports and leisure apparel, footwear and accessories sector through KAPPA and other trademarks. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, BasicNet Group and its ultimate controlling shareholder(s) are third parties independent of the Company and connected persons of the Company and BasicNet Group does not hold any Shares in the Company.

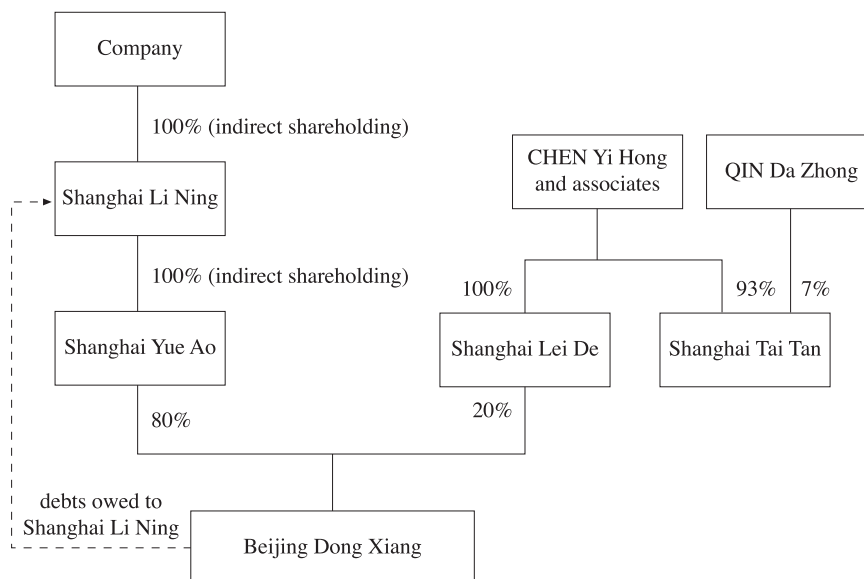
Please refer to paragraph 7B of this circular for more details of Beijing Dong Xiang.

LETTER FROM THE BOARD

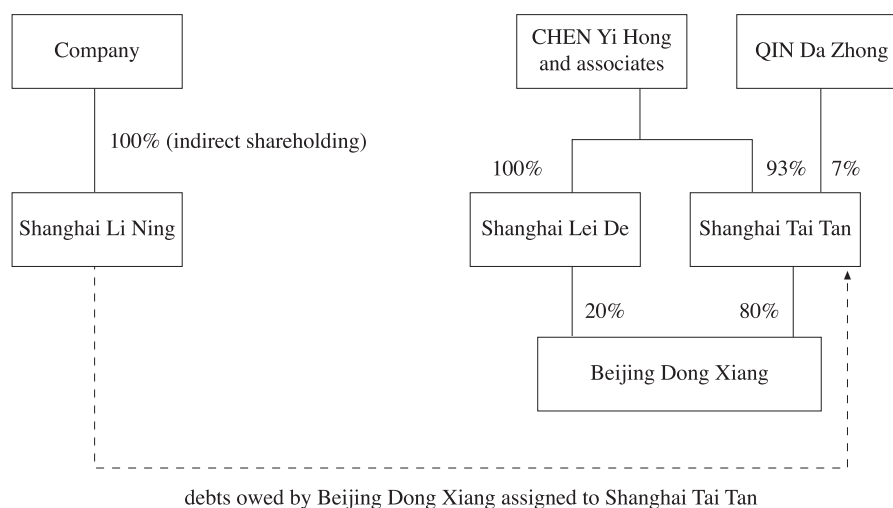
D. Shareholding of the Company in Beijing Dong Xiang

The following two diagrams set out the simplified structure of the Company's shareholding in Beijing Dong Xiang before and after the Disposal and the Assignment.

(a) *Simplified structure of the Company's shareholding in Beijing Dong Xiang before the Disposal and the Assignment*



(b) *Simplified structure of the Company's shareholding in Beijing Dong Xiang after the Disposal and the Assignment*



After the completion of the Disposal and the Assignment, the Company will no longer hold any interest (whether in form of equity or debt) in Beijing Dong Xiang and Beijing Dong Xiang will cease to be a subsidiary of the Company.

LETTER FROM THE BOARD

E. Consideration

The consideration for the Disposal will be RMB8,614,000 (equivalent to approximately HK\$8,088,300). The consideration was determined and has been agreed after arm's length negotiation between the parties taking into consideration of a number of external and internal factors including but not limited to the price earning ratio, earning performance, the commercial risk of operating the business, prior contribution and the amount of investments made by the Company on and the net asset value of Beijing Dong Xiang.

The consideration will be paid in cash by Shanghai Tai Tan to Shanghai Yue Ao within 14 days after the Equity Transfer Agreement becomes effective.

F. Effective date of the Equity Transfer Agreement

The Equity Transfer Agreement will become effective only when the approval for the Disposal and the Assignment from the Independent Shareholders has been obtained in the EGM by poll in accordance with the Hong Kong Listing Rules.

G. Application of net proceeds from the Disposal

The Group intends to use the net proceeds of approximately RMB42,800,000 (approximately HK\$40,188,000) from the Disposal and the Assignment on developing the current LI-NING brand and to operate other new brands by way of longer term cooperation through acquisition and joint venture with well known international sports corporations. Save as disclosed in the announcement dated 30 June 2005 of the Company's joint venture cooperation with Aigle International S.A. (as described in paragraph 5A below), as at the Latest Practicable Date, there are no negotiations with concrete terms that the Company can identify for any other new brands with the view for long term cooperation.

3. THE ASSIGNMENT

A. Date of the Assignment Agreement

30 June 2005

B. The Assignment

Pursuant to the Assignment Agreement entered into between Shanghai Li Ning and Shanghai Tai Tan, Shanghai Li Ning has agreed to assign the total debts in the sum of approximately RMB36,200,000 (equivalent to approximately HK\$33,990,600) owed to it by Beijing Dong Xiang to Shanghai Tai Tan.

These debts carry no interests and no fixed term. They were extended by Shanghai Li Ning to Beijing Dong Xiang according to the pre-listing arrangement between Shanghai Li Ning and Shanghai Lei De, pursuant to which Shanghai Li Ning and Shanghai Lei De were obliged to extend interest-free finance to Beijing Dong Xiang in the same proportion of their respective equity interests in Beijing Dong Xiang.

LETTER FROM THE BOARD

Beijing Dong Xiang has also obtained the necessary consent from BasicNet Group in writing to the Assignment.

C. Relationship between Shanghai Li Ning and Beijing Dong Xiang

Shanghai Li Ning is another indirect wholly owned subsidiary of the Company and a holding company of Beijing Dong Xiang. Beijing Dong Xiang owes certain debts to Shanghai Li Ning.

Pursuant to the Supplemental Agreements dated 31 December 2002 entered into between the BasicNet Group, Beijing Dong Xiang and Shanghai Li Ning in the capacity as the indirect holding company of Beijing Dong Xiang, Shanghai Li Ning is bound by the KAPPA License Agreements to provide primarily performance guarantee in relation to the performance of Beijing Dong Xiang's obligations under the KAPPA License Agreements.

It is a condition in the Assignment Agreement that immediately after the completion of the Disposal and the Assignment, the Supplemental Agreements will be terminated and Shanghai Li Ning's obligations under the KAPPA License Agreements and the Supplemental Agreements shall be released.

By a confirmation letter dated 20 June 2005 from BasicNet, BasicNet has given written irrevocable consent to the Disposal, the Assignment and all matters in connection therewith and to waive any claims in any form against the Group arising therefrom including the waiver of damages for early termination of the KAPPA License Agreements of US\$2,725,000 (equivalent to approximately HK\$21,255,000) and the release of Shanghai Li Ning from the performance guarantee pursuant to the KAPPA License Agreements and the Supplemental Agreements. BasicNet's consent is subject to the non-competition condition that restricts the Group from entering into any license and/or distribution agreements relevant to products and services that compete with BasicNet Group's activities with owners of certain brands before 31 December 2007 without the prior approval of BasicNet Group.

The Company confirms that it has no plan to invest in those brands named in the confirmation letter of BasicNet because these brands provide products and services similar to what the Company is providing and pursuant to the Company's re-positioned strategy of developing its own brands and through acquisition of or pursuing long term joint venture with international brands to achieve the Company's multi-brands business objective, it aims to cooperate with brands such as "AIGLE" that provide products and accessories which are different from and can supplement to what the Company is currently providing to the market. For the reasons stated, the Company is confident that the condition imposed by BasicNet can be fulfilled. If the Company is unable to comply with the condition, the consent given by BasicNet will become ineffective. Accordingly, BasicNet will have the right to claim against the Group the damages for the early termination of the KAPPA License Agreements and against Shanghai Li Ning for its obligation to guarantee the performance of Beijing Dong Xiang under the KAPPA License Agreements.

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D. Consideration

The consideration for the Assignment will be RMB36,200,000 (equivalent to approximately HK\$33,990,600) which is equivalent to the debts currently owed to Shanghai Li Ning by Beijing Dong Xiang. The consideration is to be paid in cash by Shanghai Tai Tan to Shanghai Li Ning in one payment within 14 days after the Assignment Agreement becomes effective.

E. Effective date of the Assignment Agreement

The Assignment will become effective only when the approval for the Disposal and Assignment from the Independent Shareholders has been obtained in the EGM by poll in accordance with the Hong Kong Listing Rules.

4. COMPLETION OF THE DISPOSAL AND THE ASSIGNMENT

The Equity Transfer Agreement and the Assignment Agreement shall become effective after the approval for the Disposal and Assignment from the Independent Shareholders has been obtained by poll in the EGM in accordance with the Hong Kong Listing Rules.

Completion of the Disposal and the Assignment shall take place upon due payment by Shanghai Tai Tan of the amount of RMB8,614,000 (equivalent to approximately HK\$8,088,300) to Shanghai Yue Ao; and RMB36,200,000 (equivalent to HK\$33,990,600) to Shanghai Li Ning. Upon completion of the Disposal and the Assignment, the obligations of Shanghai Li Ning under the KAPPA License Agreements and the Supplemental Agreements will be released immediately. The Company will no longer hold any interest (whether in form of equity or debt) in Beijing Dong Xiang.

5. REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE ASSIGNMENT

A. Strategic re-positioning for long term benefits

The Disposal and the Assignment, putting together, is attributable to a strategic re-positioning of the Company to redirect its resources currently spent on developing the short term licensing business to concentrate primarily on the development of the Company's own brands or, through acquisition of or long term joint venture with international brands, to achieve the Company's multi-brands business objective.

In line with this strategic re-positioning, the Company entered into a 50-years joint venture with Aigle International S.A., a corporation incorporated in France and the owner of the "AIGLE" brand, on 30 June 2005. An announcement of the joint venture cooperation dated 30 June 2005 was made by the Company. The Company will continue to pursue opportunities in this respect.

LETTER FROM THE BOARD

The Company believes that the change in strategy will enable the Company to enjoy the fruits of the Company's investment in brands that are either solely owned by the Company or partly owned by the Company through acquisition or long term joint venture cooperation. The Company also believes that this strategic re-positioning will more effectively increase its market competitiveness and enhance the value of the Company as the intangible value built up over time for the international brands would be accrued to the Company and its shareholders under the re-aligned strategy.

B. Short term arrangements with KAPPA do not add value to the Company

The KAPPA License Agreements are short term arrangements between the Group and the BasicNet Group and will expire on 31 December 2007. Although Beijing Dong Xiang has recorded profits for the year ended 31 December 2004, there is no certainty that the Group can extend the KAPPA License Agreements when they expire. In addition, under such short term licensing arrangements, the Company is not able to enjoy the added value of the KAPPA brand contributed by the Company in the long run through resources spent, amounting to RMB5.5 million (approximately HK\$5.2 million) and RMB12.2 million (approximately HK\$11.5 million) in 2003 and 2004 respectively, in the promotion of the KAPPA brand in order to develop the business. The Group has contributed RMB640,000 (approximately HK\$601,000) to the registered capital of Beijing Dong Xiang and provided shareholders' finance of RMB36,200,000 (approximately HK\$33,990,600) to the working capital of Beijing Dong Xiang since early 2002.

C. Unable to enter into long term arrangements with BasicNet Group in respect of KAPPA License Agreements

The Company has attempted to negotiate with BasicNet for the possibility of changing the current arrangement to a longer term cooperation in the form of either a joint venture to develop the KAPPA business or the BasicNet Group granting its rights on the KAPPA brand to the Company in the PRC for a period of say over 30 years. Such proposals have, however, not been accepted by BasicNet.

D. Disposal of equity interest to a connected person vis-à-vis early termination of the KAPPA License Agreements

As the short term arrangement under the KAPPA License Agreements is no longer in line with the Company's re-positioned business strategy, the Company has considered the early termination of the KAPPA License Agreements. However, such early termination will result in the Company having to pay damages of US\$2,725,000 (approximately HK\$21,255,000) if the Company terminated the KAPPA License Agreements on 31 December 2004 which is not in the interest of the Company. The aforesaid amount of compensation will be adjusted if the termination of the KAPPA License Agreements occurs after 31 December 2004. As the BasicNet Group is satisfied with the current business performance of the KAPPA brand under the management of Mr. CHEN Yi Hong and has no objection to the Disposal, the Directors believe that the transfer of the Company's equity in Beijing Dong Xiang to Mr. CHEN Yi Hong,

LETTER FROM THE BOARD

notwithstanding a connected person of the Company, is a better option than early termination of the KAPPA License Agreements. Based on the irrevocable written consent provided by BasicNet (as discussed in paragraph 3C above), the Company will not be subject to payment of any damages as a result of the early termination of the KAPPA License Agreements.

E. The Disposal will result in a potential gain to the Company

Based on the net asset value of Beijing Dong Xiang of approximately RMB891,000 (equivalent to approximately HK\$836,600) as at 31 December 2004 as per its 2004 audited financial statements, the Disposal will result in a potential attributable gain of approximately RMB7,901,000 (equivalent to approximately HK\$7,418,800) to the Company.

In summary, given the strategic re-positioning of the Group and in view of the potential gain from the Disposal and the benefits stated above, the Directors do not believe that the Disposal will bring any disadvantages to the Company. The Directors consider that the Disposal would be beneficial to the business development of the Group and is in the interest of the Company and its shareholders as a whole. Further, the Directors consider that the transactions are on normal commercial terms and are fair and reasonable in so far as the Company and its shareholders are concerned.

6. FINANCIAL EFFECT OF THE TRANSACTIONS

As Beijing Dong Xiang's assets consist primarily of licensing rights under the KAPPA License Agreements and the sales turnover contributed by the KAPPA licensing business only accounted for 3.1% in 2003 and 5.6% in 2004 of the Group's consolidated sales turnover, the Directors are of the view that the Disposal should not have any significant adverse effect on the revenue of the Group.

As stated in paragraph 5E above, the Disposal will result in a potential attributable gain of approximately RMB7,901,000 (equivalent to approximately HK\$7,418,800) to the Company. The Company will also be able to recover the debts in full previously advanced to Beijing Dong Xiang.

The potential gain from the Disposal and the repayment of debts due by Beijing Dong Xiang will contribute additional funds to the Company which will improve the cash position of the Company and enable the Company to have ready resources to pursue its business objectives. Save for the potential attributable gain of approximately RMB7,901,000 (equivalent to approximately HK\$7,418,800) from the Disposal as described, there will be no impact to the balance sheet of the Group.

LETTER FROM THE BOARD

7. INFORMATION ON THE GROUP

A. Information on the Company

The Company is one of the leading sports brand enterprises in the PRC. It engages in the business of branding development, designing, manufacturing, distribution and retailing of sports footwear, apparel and accessories primarily sold under the LI-NING brand owned by the Company. Sales turnover generated from the LI-NING brand accounted for 96.9% and 94.4% of the Group's consolidated sales turnover in 2003 and 2004 respectively. The total asset values of the Group were approximately RMB1,481,431,000 (equivalent to approximately HK\$1,391,015,000) and RMB767,778,000 (equivalent to approximately HK\$720,918,000) in 2004 and 2003 respectively. The Group has recorded a profit before taxation of approximately RMB192,264,000 (equivalent to approximately to HK\$180,523,000) and RMB114,563,000 (equivalent to approximately to HK\$107,571,000) in 2004 and 2003 respectively. The Company recorded a profit after tax of approximately RMB134,778,000 (approximately HK\$126,552,000) and RMB92,534,000 (approximately HK\$86,886,000) in 2004 and 2003 respectively.

B. Information on Beijing Dong Xiang

Beijing Dong Xiang was established as a limited liability company in the PRC on 18 April 2002 and has a registered capital of RMB800,000. The shareholding structure of Beijing Dong Xiang is as follows:

Name of shareholder	Capital contribution	Proportion of capital contribution
Shanghai Yue Ao	RMB640,000 (approximately HK\$601,000)	80%
Shanghai Lei De	RMB160,000 (approximately HK\$150,000)	20%

Shanghai Lei De is wholly owned by Mr. CHEN Yi Hong, an executive Director, and his brother Mr. CHEN Yi Liang, and is therefore connected with the Company. Mr. CHEN Yi Hong is also primarily responsible for the overall management of Beijing Dong Xiang.

Beijing Dong Xiang recorded a net profit of RMB5,696,000 (equivalent to approximately HK\$5,348,400) in 2004 and incurred a net loss of RMB2,312,000 (equivalent to approximately HK\$2,170,900) in 2003.

Beijing Dong Xiang is primarily engaged in the development, manufacturing, sales and distribution of all products related to, named or associated with the KAPPA brand. The KAPPA brand originates in Italy and is currently owned by the BasicNet Group. Beijing Dong Xiang has an exclusivity on the KAPPA brand in the PRC (including Macau but excluding Hong Kong and Taiwan) until 31 December 2007 under the KAPPA Licensing Agreements. Beijing Dong Xiang's major assets are the licensing rights under the KAPPA License Agreements.

LETTER FROM THE BOARD

C. Information on Shanghai Yue Ao

Shanghai Yue Ao is an indirect wholly owned subsidiary of Shanghai Li Ning and an indirect wholly owned subsidiary of the Company. It is a limited liability company established in the PRC on 5 March 2003.

Apart from holding an equity interest of 80% in Beijing Dong Xiang, Shanghai Yue Ao primarily engages in the sale of footwear and apparel products to the other companies within the Group.

D. Information on Shanghai Li Ning

Shanghai Li Ning is an indirect wholly owned subsidiary of the Company. It was initially established as a domestic enterprise in the PRC with limited liability, and was converted to a wholly foreign owned enterprise on 11 December 2002.

Shanghai Li Ning is an investment holding company and has no substantial business operation. It is primarily responsible for the general management of the Group.

8. INFORMATION ON SHANGHAI TAI TAN

Shanghai Tai Tan is a limited company incorporated in the PRC and was set up to acquire Beijing Dong Xiang. It is owned as to 80% by Mr. CHEN Yi Hong (an executive Director), as to 13% by Ms. LIU Pei Ying (the spouse of Mr. CHEN Yi Hong) and as to 7% by Mr. QIN Da Zhong, the General Manager of Beijing Dong Xiang respectively.

Shanghai Tai Tan is primarily engaged in the business of technical development, design, manufacturing and retailing of sports goods and clothing in the PRC.

9. DISCLOSURE AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

As Shanghai Tai Tan is 93% owned by Mr. CHEN Yi Hong (an executive Director) and his spouse who are connected persons of the Company, the Disposal together with the Assignment therefore constitute connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Disposal and the Assignment, putting together, also constitutes discloseable transactions under Chapter 14 of the Hong Kong Listing Rules.

The Directors will seek Independent Shareholders' approval by poll for the Disposal and the Assignment at the EGM to be convened and Mr. CHEN Yi Hong, who has a material interest in the foregoing transactions, and Mr. CHEN Yi Liang, Ms. LIU Pei Ying, Mr. QIN Da Zhong and their respective associates will abstain from voting at the EGM.

LETTER FROM THE BOARD

10. GENERAL

As Mr. CHEN Yi Hong, an executive Director, and his spouse own as to 93% in Shanghai Tai Tan which is a party to the Disposal and the Assignment, Shanghai Tai Tan is a connected person of the Company. Accordingly, the Disposal and the Assignment with the Company constitute connected and discloseable transactions under the Hong Kong Listing Rules. In this regard, the Equity Transfer Agreement and the Assignment Agreement are subject to approval from the Independent Shareholders at the EGM by way of poll.

In view of the interests of Mr. CHEN Yi Hong in Shanghai Tai Tan, Mr. CHEN Yi Hong, Mr. CHEN Yi Liang, Ms. LIU Pei Ying, Mr. QIN Da Zhong and their respective associates will abstain from voting in relation to the ordinary resolution approving the Equity Transfer Agreement and the Assignment Agreement to be proposed at the EGM.

The Board has appointed the Independent Board Committee comprising the three independent non-executive Directors to advise the Independent Shareholders as to the fairness and reasonableness of the Disposal and the Assignment.

Access Capital has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in relation to the Disposal and the Assignment.

An EGM will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 11 August 2005 at 10:00 a.m. to approve the Disposal, the Assignment, the execution of the Equity Transfer Agreement by Shanghai Yue Ao and the Assignment by Shanghai Li Ning respectively. The notice of the EGM is set out on pages 41 to 42 of this circular.

A form of proxy for use in the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the office of the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any subsequent meetings following the adjournments thereof) should you wish.

11. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, which is set out on pages 17 to 18 of this circular, and which contains their recommendation in respect of the terms of the Equity Transfer Agreement and the Assignment Agreement.

LETTER FROM THE BOARD

The advice of Access Capital to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Equity Transfer Agreement and the Assignment Agreement are set out on pages 19 to 31 of this circular. Access Capital considers that the terms of the Equity Transfer Agreement and the Assignment Agreement on the whole are fair and reasonable in so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors believe that the terms of the Equity Transfer Agreement and the Assignment Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the proposed resolution at the EGM to approve the Disposal, the Assignment, the Equity Transfer Agreement and the Assignment Agreement.

12. FURTHER INFORMATION

Your attention is drawn to the general information set out in Appendix I to this circular.

By order of the Board
LI NING COMPANY LIMITED
LI Ning
Chairman



LI NING COMPANY LIMITED

(李寧有限公司)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

25 July 2005

To the Independent Shareholders

Dear Shareholders,

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY
AND
ASSIGNMENT OF DEBT RELATED TO SUCH DISPOSAL**

We refer to the circular of the Company to the Shareholders dated 25 July 2005 (“Circular”), of which this letter forms a part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Disposal and the Assignment are in the interests of the Company and the Independent Shareholders as a whole and whether the terms of the Equity Transfer Agreement and the Assignment Agreement are fair and reasonable.

Access Capital has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee regarding the terms of the Equity Transfer Agreement and the Assignment Agreement. Details of Access Capital’s advice, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 19 to 31.

Your attention is also drawn to the letter from the Board set out on pages 4 to 16 and the additional information set out in Appendix I.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Equity Transfer Agreement and the Assignment Agreement and having considered the interests of the Independent Shareholders and the advice of Access Capital, we consider that the terms of the Equity Transfer Agreement and the Assignment Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders to vote in favour of the ordinary resolution approving the Disposal, the Assignment, the Equity Transfer Agreement and the Assignment Agreement.

Yours faithfully,

LI NING COMPANY LIMITED

KOO Fook Sun, Louis WANG Ya Fei CHAN Chung Bun, Bunny

Independent Board Committee

LETTER FROM ACCESS CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

25 July 2005

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

Dear Sirs,

Connected and Discloseable Transactions

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of an agreement entered into, on 30 June 2005, between the vendor, namely Shanghai Yue Ao (which is an indirect wholly owned subsidiary of the Company), and the purchaser, namely Shanghai Tai Tan. The Equity Transfer Agreement involves, inter alia, the disposal of the vendor's 80% equity interest in Beijing Dong Xiang to the purchaser for an aggregate consideration of RMB8,614,000 (equivalent to approximately HK\$8,088,300). Concurrent with the Disposal, the assignor, Shanghai Li Ning (which is another indirect wholly owned subsidiary of the Company and a holding company of Beijing Dong Xiang) agreed to assign all its rights in the outstanding debts in the sum of RMB36,200,000 owed to it by Beijing Dong Xiang to the assignee, Shanghai Tai Tan for a consideration of RMB36,200,000 (equivalent to approximately HK\$33,990,600).

Beijing Dong Xiang is a subsidiary of the Company that is engaged principally in the development, manufacturing, sales and distribution of KAPPA branded products in the PRC (including Macau but excluding Hong Kong and Taiwan).

LETTER FROM ACCESS CAPITAL

Details of the Disposal and the Assignment are contained in the “Letter from the Board” of the circular to the Shareholders dated 25 July 2005 (“Circular”), of which this letter forms a part. The terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

A detailed illustration of the shareholding structure of Beijing Dong Xiang before and after the Disposal and the Assignment as it relates to the Company is set out in the “Letter from the Board”.

As Shanghai Tai Tan is 93% owned by Mr. CHEN Yi Hong (an executive Director) and his spouse, it is a connected person of the Company under the Hong Kong Listing Rules. The Disposal and the Assignment constitute connected transactions and also discloseable transactions for the Company under the Hong Kong Listing Rules and are subject to approval by the Independent Shareholders by poll at the EGM. Mr. CHEN Yi Hong, Mr. CHEN Yi Liang, Ms. LIU Pei Ying and Mr. QIN Da Zhong and their respective associates are required to abstain from voting at the EGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of four executive Directors, namely Mr. LI Ning, Mr. ZHANG Zhi Yong, Mr. TAN Wee Seng and Mr. CHEN Yi Hong; three non-executive Directors, namely Mr. LIM Meng Ann, Mr. Stuart SCHONBERGER and Mr. FONG Ching, Eddy, and three independent non-executive Directors, namely Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei and Mr. CHAN Chung Bun, Bunny.

The Independent Board Committee comprising the three independent non-executive Directors, Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei and Mr. CHAN Chung Bun, Bunny, has been established to consider the terms of the Disposal and the Assignment.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Disposal and the Assignment are fair and reasonable in so far as the Independent Shareholders are concerned, and to give our opinion in relation to the Disposal and the Assignment for the Independent Board Committee’s consideration in making their recommendation to the Independent Shareholders.

III. BASES AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the executive Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the executive Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and

LETTER FROM ACCESS CAPITAL

representations made or provided by the executive Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the executive Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the executive Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background to and reasons for the Disposal and the Assignment

1.1 Background to the Disposal and the Assignment

By way of background, Beijing Dong Xiang obtained, pursuant to the KAPPA License Agreements dated 14 February 2002 with BasicNet Group, the exclusive rights to sell the KAPPA branded products in the PRC (including Macau but excluding Hong Kong and Taiwan), and have the right to use certain business and commercial know-how created and regularly updated by BasicNet as well as, certain technical know-how related to the design, industrialisation, manufacture and marketing of the KAPPA branded products bearing the KAPPA brand.

The agreement is for a term of five years and eleven months from 1 February 2002 to 31 December 2007, which, subject to further agreements between the parties, may be renewed for a further term of five years.

Pursuant to the Supplemental Agreements dated 31 December 2002 entered into between BasicNet Group, Beijing Dong Xiang and Shanghai Li Ning in the capacity as the indirect holding company of Beijing Dong Xiang, Shanghai Li Ning is bound by the KAPPA License Agreements to provide primarily performance guarantee in relation to the performance of Beijing Dong Xiang's obligations under the KAPPA Licensing Agreements. There is no guarantee by the Company in monetary amount and the Company would only be required to pay for the shortfall

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if Beijing Dong Xiang fails to achieve the target performance and at the same time fails to make the payment. The executive Directors confirm that, since the commencement of the KAPPA brand business in April 2002 and up to and including the Latest Practicable Date, neither Beijing Dong Xiang nor the Company was required to pay for any shortfalls in accordance with the performance guarantee.

The Company has established a distributorship and retail network for the KAPPA branded products with dedicated point of sales throughout the entire PRC market. The Company adopted a diversified retail mode comprising franchised retail outlets and self-operated retail stores and concession counters. As at 31 December 2004, there were a total of 265 outlets dedicated to the KAPPA branded products (of which 254 were franchised retail outlets, 3 were directly-managed retail stores and 8 were directly-managed concession counters), representing a 65.6% growth in the number of outlets over 2003. The franchised retail outlets are in essence exclusive KAPPA retail outlets, whereby they purchase the KAPPA branded products from Beijing Dong Xiang for sales to customers, as such, Beijing Dong Xiang does not receive franchise fees from the franchisees.

The audited turnover of Beijing Dong Xiang for the years ended 31 December 2003 and 31 December 2004, as extracted from its 2004 audited accounts, were approximately RMB40.1 million and approximately RMB105.5 million respectively. Beijing Dong Xiang incurred a net loss of approximately RMB2.3 million for the year ended 31 December 2003 and recorded a net profit of approximately RMB5.7 million for the year ended 31 December 2004.

Despite the substantial increase in turnover of 163.5% from the year 2003 to 2004, the sales of the KAPPA branded products only accounted for 5.6% of total turnover of the Group, which amounted to approximately RMB1,878.1 million, while the net profit contribution of the KAPPA brand business only accounted for 4.1% of the Group's total net profit of RMB133.4 million for the year ended 31 December 2004.

According to the KAPPA License Agreements and the Supplemental Agreements, any early termination of the agreements or any changes in the constitution, structure, control or management of Beijing Dong Xiang, would require prior consent of BasicNet. Furthermore, according to the executive Directors, had the KAPPA License Agreements been terminated early by the Company on 31 December 2004, Beijing Dong Xiang is required to pay BasicNet approximately US\$2,725,000 as a compensation, for the period up to 31 December 2007, being the expiry date of the KAPPA License Agreements, as set out in the KAPPA License Agreements. The aforesaid amount of compensation will be adjusted with regard to the termination of the KAPPA License Agreements after 31 December 2004.

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As stated in the “Letter from the Board”, with the consideration of an early termination of the KAPPA License Agreements in mind, the Company initiated discussions with BasicNet. Pursuant to the discussions, BasicNet has given the confirmation of consent in writing to the Disposal and the Assignment to allow the Group to dispose of its interest in Beijing Dong Xiang to Shanghai Tai Tan given that Mr. CHEN Yi Hong, an executive Director who is currently managing the KAPPA brand business, would continue to operate under the remaining tenure of the KAPPA License Agreements.

By a confirmation letter dated 20 June 2005 from BasicNet, BasicNet has given written irrevocable consent to the Disposal, the Assignment and all matters in connection therewith and to waive any claims in any form against the Group arising therefrom including the waiver of damages for early termination of the KAPPA License Agreements of US\$2,725,000 and the release of Shanghai Li Ning from the performance guarantee pursuant to the KAPPA License Agreements and the Supplemental Agreements. BasicNet’s consent is subject to the non-competition condition that restricts the Company from entering into any license and/or distribution agreements relevant to products and services that compete with BasicNet’s activities with owners of certain brands before 31 December 2007 without the prior approval of BasicNet.

The Company confirms that it has no plan to invest in those brands named in the confirmation letter of BasicNet because these brands provide products and services similar to what the Company is providing and pursuant to the Company’s re-positioned strategy of developing the Company’s own brand (such as the LI-NING brand) or through acquisition of or long term joint venture with international brands, such as “Aigle” that provide products and accessories which are different from and can supplement to what the Company is currently providing to the market. For the reasons stated, the Company is confident that the condition imposed by BasicNet can be fulfilled. If the Company is unable to comply with the condition, the consent given by BasicNet will become ineffective. Accordingly, BasicNet will have the right to claim against the Group the damages for the early termination of the KAPPA License Agreements and against Shanghai Li Ning for its obligation to guarantee the performance of Beijing Dong Xiang under the KAPPA License Agreements. Since the LI-NING brand covers products and services similar to those brands under the non-competition condition, we do not believe such condition to be unfavourable to the Group.

On the basis of the abovementioned consent, the Company reached two agreements with Shanghai Tai Tan controlled by Mr. CHEN Yi Hong on 30 June 2005. The terms of the Equity Transfer Agreement and the Assignment Agreement were arrived at arm’s length negotiation between the parties involved by reference to a number of external and internal factors including but not limited to the price earnings ratio, earnings performance, the commercial risk of operating the business (such as (i) the dependency on the PRC distributors and their operation of franchised

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KAPPA retail outlets; and (ii) the possible infringement of trademarks and other intellectual property rights and the counterfeiting of products), prior contribution and the amount of investments made by the Company on Beijing Dong Xiang and the net asset value of Beijing Dong Xiang.

The aggregate consideration to be received by the Group for the Disposal and the Assignment is RMB44,814,000 (equivalent to approximately HK\$42,078,900). The consideration shall be partly satisfied by the payment in cash from Shanghai Tai Tan to Shanghai Yue Ao for the Disposal in the sum of RMB8,614,000 (equivalent to approximately HK\$8,088,300) pursuant to the Equity Transfer Agreement and partly by the payment in cash from Shanghai Tai Tan to Shanghai Li Ning for the Assignment in the sum of RMB36,200,000 (equivalent to approximately HK\$33,990,600) pursuant to the Assignment Agreement.

1.2 Reasons for and benefits of the Disposal and the Assignment

According to the executive Directors, the Company's original intent with respect to its investment in the KAPPA brand business was to effectively leverage its position in the sporting goods industry to develop diversified and robust income streams for the long term, by managing and introducing foreign brands (such as the KAPPA brand) with special characteristics, styles and product niches into the PRC market.

Since the execution of the KAPPA License Agreements in early 2002 and in the course of developing the KAPPA brand business in the PRC, the Company has utilised its position in the sporting goods industry in the PRC to assist the promotion and development of the KAPPA brand business and has placed substantial amount of investment and efforts into developing and marketing the KAPPA brand business in the PRC (including Macau but excluding Hong Kong and Taiwan) which included RMB640,000 as its contribution to the registered capital of Beijing Dong Xiang and shareholders' finance of RMB36,200,000 as general working capital to Beijing Dong Xiang, yet the contribution from the KAPPA brand business to the Group's financial results remained at a low level and the operation only recorded a profit of approximately RMB5.7 million as of the financial year ended 31 December 2004. The executive Directors believe that the contributions from the KAPPA brand business will remain small unless large amount of investment (i.e. substantially greater than the amount spent in 2003 and 2004 as disclosed below) and efforts are put in place to further develop the brand. Besides, it takes time to secure brand awareness and establish brand loyalty among the customers. However, uncertainty exists as to whether BasicNet will renew the KAPPA License Agreements after its expiry on 31 December 2007, and even if the KAPPA License Agreements were to be renewed for another five years, the tenure of which may not be a sufficiently long period of time to commercially justify the Company in investing further efforts and resources (such as promotional expenses which amounted to approximately RMB5.5 million and approximately RMB12.2 million for the years ended 2003 and 2004

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respectively) into the KAPPA brand business, since there can be no certainty as to the performance of the KAPPA brand business even if the KAPPA License Agreements are renewed for another five years, let alone the fact that there are only 29 months remaining under the current agreements.

On the other hand, as discussed in the Company's 2004 annual report, the Company's own LI-NING brand business was by far the largest contributor to the Group's financial performance, accounting for 94.4% and 95.9% of total sales and net profit of the Group respectively for the year ended 31 December 2004. In line with the Group's strategic re-positioning to redirect its resources to drive the growth of its own brands (such as the LI-NING brand) or, through acquisition of or long term joint venture with international brands, to achieve the Company's multi-brands business objective, and in light of the uncertainty over the long term future of the KAPPA brand operation, the Directors believe that it would be in the best interest of the Company to dispose of its interest in Beijing Dong Xiang and achieve a fair and reasonable return (as described in paragraph 2.1 below).

Given the purchaser, Shanghai Tai Tan (as incumbent management of Beijing Dong Xiang) to acquire the 80% interest in Beijing Dong Xiang from the Group and taking into account the length of the remaining tenure and the terms of the KAPPA License Agreements, it is logical to believe that in practice, the Group may have difficulty in selling its interest in Beijing Dong Xiang to another third party, unless such a sale is made with the support of Shanghai Tai Tan, who can provide any potential buyer the necessary comfort on the future profitability of Beijing Dong Xiang. In addition, it is the Company's understanding that BasicNet Group wishes to ensure that there will continue to be stability and growth of the KAPPA brand business under the current management in the event of any disposal of interest in Beijing Dong Xiang by the Company. Accordingly, the Directors consider the Disposal to Shanghai Tai Tan, on one hand preserves the principle of BasicNet Group and on the other hand, provides an opportunity for the Group to exit from this investment, which although profitable, is a business that may be discontinued before it can make significant contributions, in terms of revenue and profit, relative to the Group's other business operation, namely the LI-NING brand. As at the Latest Practicable Date, the LI-NING brand and the KAPPA brand were the only two brands operated by the Company.

By disposing of the KAPPA brand business, the management of the Company will be able to redirect their efforts and resources to concentrate primarily on the development of the Company's own brands and/or its multi-brands business objective. The Directors believe that the strategic re-positioning will enable the Company to enjoy the fruits of the Company's investment in brands that are either solely owned by the Company or partly owned by the Company through acquisition or joint venture licensing cooperation with international brands with a long tenure. The Directors also believe that this strategic re-positioning will more effectively increase its market competitiveness and enhance the value of the Company as the

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intangible value built up over time for the international brands would be accrued to the Company and the Shareholders under the re-aligned strategy, such as the 50-years joint venture with Aigle International S.A. as announced by the Company on 30 June 2005.

In view of the aforesaid reasons, the Directors do not consider there will be any disadvantage to the Disposal and the Assignment as far as the Company and its Shareholders are concerned and we concur with the view of the Directors and believe that is fair and reasonable and in the interests of the Company and the Independent Shareholders to proceed and implement the Disposal and the Assignment.

2. Terms, consideration and possible financial effects of the Disposal and the Assignment

2.1 Payment terms and consideration of the Disposal

As stated in the “Letter from the Board”, pursuant to the Equity Transfer Agreement, Shanghai Yue Ao has agreed to sell its entire equity interest (which equals to 80%) in Beijing Dong Xiang to Shanghai Tai Tan for a consideration of RMB8,614,000 (equivalent to approximately HK\$8,088,300) which is to be paid in cash by Shanghai Tai Tan to Shanghai Yue Ao in one payment within 14 days after the Equity Transfer Agreement becomes effective.

Taking into account the consideration under the Equity Transfer Agreement of RMB8,614,000 (equivalent to approximately HK\$8,088,300) and the net asset value of Beijing Dong Xiang of approximately RMB891,000 (equivalent to approximately HK\$836,600) as at 31 December 2004 as per its 2004 audited financial statements, the Disposal will result in a potential attributable gain of approximately RMB7,901,000 (equivalent to approximately HK\$7,418,800) to the Company and represent a premium of 9.7 times to the net asset value of Beijing Dong Xiang.

We have also evaluated the consideration of the Disposal by reference to the profitability of Beijing Dong Xiang. The following table sets out the relevant exit price earnings ratio (PER) based on the amount under the consideration of RMB8,614,000 (equivalent to approximately HK\$8,088,300).

Consideration for 80% of Beijing Dong Xiang (a)	80% of average net profit of Beijing Dong Xiang in the two financial years ended 31 December 2003 and 2004		PER (a)/(b)
		(b)	
RMB8,614,000		RMB2,707,200	3.18 times

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Independent Shareholders should note that the exit price earnings ratio of 3.18 times from the Disposal is significantly lower than those of other listed clothing retail groups in Hong Kong with established brand names (which ranges from 12.38 times to 20.22 times) as at the time of the Equity Transfer Agreement, as illustrated in the table below.

Company name	Stock code	Market capitalisation as at 30 June 2005 (million)	Turnover for the latest financial year (million)	Net profit/(loss) for the latest financial year (million)	Price to earnings ratio as at 30 June 2005 Times
Bossini International Holdings Limited	592	HK\$2,478.88	HK\$2,016.9	HK\$182.1	13.29
FX Creations International Holdings Limited	8136	HK\$15.2	HK\$69.9	HK\$(10)	N.A.
Giordano International Limited	709	HK\$8,032.37	HK\$4,003.0	HK\$393.0	19.67
Glorious Sun Enterprises Limited	393	HK\$3,561.03	HK\$ 3,583.8	HK\$220.1	16.14
Texwinca Holdings Limited	321	HK\$8,288.49	HK\$6,216.5	HK\$422.0	20.22
I.T. Limited	999	HK\$2,033.50	HK\$ 1,041.0	HK\$112.7	12.38
Li Ning Company Limited	2331	RMB3,606.21	RMB1,878.1	RMB133.4	26.27
Beijing Dong Xiang	N.A.	N.A.	RMB105.5	RMB5.7	3.18

Note: The latest financial year end date for Bossini International Holdings Limited, FX Creations International Holdings Limited and Texwinca Holdings Limited is 31 March 2005; the latest financial year end date for Giordano International Limited, Glorious Sun Enterprises Limited and Li Ning Company Limited is 31 December 2004; and the latest financial year end date for I.T. Limited is 28 February 2005.

Source: Relevant annual reports of the respective listed companies and Bloomberg.

However, due to the short term nature of the KAPPA brand business and the relatively short history of operation under Beijing Dong Xiang with much lower profitability and turnover than other established brand names, we are of the view that it is inappropriate to make direct comparisons between Beijing Dong Xiang, an unlisted entity under the Group, and other listed companies in assessing the fairness and reasonableness of the terms and consideration of the Disposal. Given the short term nature of the KAPPA license business and the unlisted nature of Beijing Dong Xiang, we are of the view that the exit price earnings ratio of 3.18 times represents a fair and reasonable return as far as the Company and Independent Shareholders are concerned.

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Furthermore, by obtaining BasicNet's consent in writing to both the Disposal and the Assignment, the obligations of Shanghai Li Ning under the KAPPA License Agreements and the Supplemental Agreements (including the performance guarantee) will be released immediately after the completion of the Disposal and the Assignment. In other words, the Company would not be subject to, among other things, the compensation according to the terms set out in the KAPPA License Agreements in the case of early termination by the Company, which, according to the executive Directors, would otherwise have amounted to a total of approximately US\$2,725,000 (as discussed in paragraph 1.1 above) if the Company terminated the KAPPA License Agreements on 31 December 2004.

Based on the potential attributable gain from the Disposal, the PER and the aforesaid reasons, we believe the terms and consideration of the Disposal to be fair and reasonable.

2.2 Payment terms and consideration of the Assignment

Pursuant to the Assignment Agreement, Shanghai Li Ning has agreed to assign the total debts in the sum of approximately RMB36,200,000 (equivalent to HK\$33,990,600) owed to it by Beijing Dong Xiang to Shanghai Tai Tan for a consideration of RMB36,200,000 which is to be paid in cash by Shanghai Tai Tan to Shanghai Li Ning in one payment within 14 days after the Assignment Agreement becomes effective.

Upon completion of the Assignment, the outstanding debts owed by Beijing Dong Xiang to the Company will be repaid, and in doing so the Company would be able to further strengthen its cash position as described in paragraph 2.3 below. In addition, upon completion of the Disposal, the Company would no longer be the shareholder of Beijing Dong Xiang and therefore would be discharged of its entire obligation to provide interest-free finance to Beijing Dong Xiang according to the pre-listing arrangement between Shanghai Li Ning, Shanghai Lei De and Beijing Dong Xiang.

Based on the aforesaid reasons, we are of the view that the terms contemplated under the Assignment Agreement are fair and reasonable as far as the Company and Independent Shareholders are concerned.

In summary of paragraphs 2.1 and 2.2, taking into account (i) the potential attributable gain to the Company represents a premium of 9.7 times to the net asset value of Beijing Dong Xiang; (ii) the reasonableness of the exit price earnings ratio of 3.18 based on the amount under the consideration of RMB8,614,000; (iii) the release of the Company's obligations under the KAPPA License Agreements pursuant to BasicNet's written consent regarding the said agreements; (iv) the ability for the Group to reclaim its finance to Beijing Dong Xiang in full; and (v) the

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discharge of the Company's entire obligation to provide interest-free finance to Beijing Dong Xiang at the completion of the Equity Transfer Agreement and the Assignment Agreement, we consider the terms of the Disposal and the Assignment to be fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

2.3 Intended use of net proceeds

As at 31 December 2004, the Group recorded a total of approximately RMB695.1 million in cash and bank balances. The net proceeds generated from the Disposal and the Assignment will further strengthen the cash position of the Group. We have discussed with the Directors and have noted that they intend to use the net proceeds of approximately RMB42.8 million (equivalent to HK\$40.2 million) from the Disposal and the Assignment on developing the current LI-NING brand and to operate other new brands by way of longer term cooperation through acquisition and joint venture with well known international sports corporations as and when opportunities arise (such as the 50-years joint venture with Aigle International S.A. as announced by the Company on 30 June 2005). As at the date of this letter, the Company is actively considering and pursuing other cooperation opportunities, but other than the joint venture with Aigle International S.A. as announced on 30 June 2005, there are no negotiations with concrete terms.

The Directors consider that the proceeds will further enhance the Group's capabilities, as well as its flexibility in developing its business or in seeking acquisitions and joint ventures, as and when opportunities arise, all of which are in the interests of the Company and the Shareholders as a whole. We are of the view that such arrangements are beneficial to the Company in the long term.

2.4 Possible financial impact to the ongoing turnover and profitability of the Group

Save for the potential attributable gain of approximately RMB7,901,000 (equivalent to approximately HK\$7,418,800) from the Disposal as described in paragraph 2.1 above, there will be no impact to the balance sheet of the Group. We have also considered the possible financial impact on the ongoing turnover and profitability of the Group as a result of the Disposal and the Assignment.

Upon completion of the Disposal and the Assignment, Beijing Dong Xiang will no longer be a subsidiary of the Company and the Group will not be able to consolidate such future profits after the completion of the Disposal.

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The turnover and attributable net profit contribution of Beijing Dong Xiang for the financial year ended 31 December 2004 were approximately RMB105.5 million and approximately RMB5.7 million respectively. As stated in the “Letter from the Board”, for the financial year ended 31 December 2004, the turnover contribution of Beijing Dong Xiang accounted for 5.6% of the Group’s total turnover of RMB1,878.1 million, while the net profit contribution of Beijing Dong Xiang accounted for 4.1% of the Group’s total net profit of RMB133.4 million. Given the nominal contributions from the KAPPA brand business, we believe that the Disposal will only have immaterial impact on the Group’s ongoing revenue stream and profitability.

3. Factors considered

In considering the terms of the Disposal and the Assignment, we have taken into account the following factors:

- the fact that the Group has not and will unlikely realise significant business synergies from its investment in Beijing Dong Xiang, and that the short term KAPPA License Agreements go against the strategic re-positioning of the Company;
- the prospect for the Company to refocus its efforts and resources to concentrate primarily on the development of the Company’s own brands and/or its multi-brands business objective;
- the terms and consideration of the Disposal represent an opportunity for the Group to realise an acceptable return from its investment in Beijing Dong Xiang;
- the terms and consideration of the Assignment represent an opportunity to reclaim its rights in the outstanding debts owed by Beijing Dong Xiang and be discharged of its entire obligation to provide interest-free finance to Beijing Dong Xiang;
- the net proceeds generated from the Disposal and the Assignment will further strengthen the cash position of the Group and the Directors’ intent to use the net proceeds from the Disposal and the Assignment on developing the current LI-NING brand and to operate other new brands by way of longer term cooperation through acquisition and joint venture with well known international sports corporations as and when opportunities arise; and
- the potential gain on disposal as a result of the Disposal and the immaterial financial impact to the ongoing turnover and profitability of the Group.

LETTER FROM ACCESS CAPITAL

V. RECOMMENDATION

After having considered the above principal factors including, namely, (i) background to and reasons for the Disposal and the Assignment; (ii) the re-positioning and long term business strategy of the Company; and (iii) the possible financial impact of the Disposal and the Assignment, we are of the view that terms of the Disposal and the Assignment are fair and reasonable so far as the Independent Shareholders are concerned and that it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Disposal and the Assignment, which will be proposed at the EGM.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny LEUNG
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTEREST

(a) Interests and short positions of Directors and chief executive in the Shares

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(i) Long position in the Shares

Name of Director	Capacity and number of Shares held			Number of equity derivatives (options) held	Total	Approximate % in total issued share capital
	Personal interest	Family interest	Corporate interest			
LI Ning	–	–	405,424,000	–	405,424,000 <i>(Note 1)</i>	39.62%
ZHANG Zhi Yong	3,700,000	–	–	12,179,000	15,879,000 <i>(Note 2)</i>	1.55%
TAN Wee Seng	–	–	–	4,715,000	4,715,000 <i>(Note 3)</i>	0.46%
CHEN Yi Hong	11,216,000	2,450,000	–	750,000	14,416,000 <i>(Note 4)</i>	1.41%
LIM Meng Ann	–	–	–	246,000	246,000 <i>(Note 5)</i>	0.02%

Name of Director	Capacity and number of Shares held			Number of equity derivatives (options) held	Total	Approximate % in total issued share capital
	Personal interest	Family interest	Corporate interest			
Stuart SCHONBERGER	–	–	–	246,000	246,000 (Note 5)	0.02%
FONG Ching, Eddy	–	–	–	246,000	246,000 (Note 5)	0.02%
KOO Fook Sun, Louis	–	–	–	246,000	246,000 (Note 5)	0.02%
WANG Ya Fei	–	–	–	246,000	246,000 (Note 5)	0.02%

Notes:

- (1) Mr. LI Ning is taken to be interested in an aggregate of 405,424,000 Shares held by Victory Mind Assets Limited (“Victory Mind”), Champion Link Capital Limited (“Champion Link”) and Alpha Talent Management Limited (“Alpha Talent”) respectively as follows:
- (a) 220,174,000 Shares are held by Victory Mind which is owned as to 62.106% by Mr. LI Ning. Mr. LI Ning is taken to be interested in 220,174,000 Shares that Victory Mind is interested;
 - (b) 150,000,000 Shares are held by Champion Link, which is wholly owned by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. LI Ning and his brother, Mr. LI Chun. Mr. LI Ning is the settlor of the Palm Trust and is taken to be interested in 150,000,000 Shares that Champion Link is interested; and
 - (c) 35,250,000 Shares are held by Alpha Talent, which is established and solely owned by Mr. LI Ning for the purpose of holding the relevant Shares under the Employee Share Purchase Scheme of Alpha Talent. Mr. LI Ning is taken to be interested in 35,250,000 Shares that Alpha Talent is interested.
- (2) Mr. ZHANG Zhi Yong is taken to be interested in a total of 15,879,000 Shares. In addition to the 3,700,000 Shares held upon completion of the share offer of the Company in June 2004, Mr. ZHANG Zhi Yong is also taken to be interested as a grantee of options to purchase 9,750,000 Shares under the Employee Share Purchase Scheme of Alpha Talent; options to subscribe for 1,597,000 Shares under the Company’s Pre-IPO Share Option Scheme and options to subscribe for 832,000 Shares under the Company’s Post-IPO Share Option Scheme.

- (3) Mr. TAN Wee Seng is interested in a total of 4,715,000 Shares. He is taken to be interested as a grantee of options to purchase 2,700,000 Shares under the Employee Share Purchase Scheme of Alpha Talent; options to subscribe for 1,287,000 Shares under the Company's Pre-IPO Share Option Scheme and options to subscribe for 728,000 Shares under the Company's Post-IPO Share Option Scheme.
- (4) Mr. CHEN Yi Hong is interested in 11,216,000 Shares registered in his name and is additionally taken to be interested in the 2,450,000 Shares registered in the name of his wife, Ms. LIU Pei Ying. Mr. CHEN Yi Hong is also taken to be interested as a grantee of options to purchase 750,000 Shares under the Employee Share Purchase Scheme of Alpha Talent.
- (5) The respective Director is taken to be interested as a grantee of options to subscribe for 246,000 Shares under the Company's Post-IPO Share Option Scheme.

(ii) *Short position in the Shares*

Name of Director	Number of Shares in short position	Capacity	Approximate % in total issued share capital
LI Ning	25,230,000	Corporate (Note)	2.47%

Note: Mr. LI Ning is taken to have a short position in 25,230,000 Shares, among the total of 35,250,000 Shares, held by Alpha Talent, in the Company. As at the Latest Practicable Date, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to its Employee Share Purchase Scheme and no options had been exercised to purchase for such shares under the scheme. Mr. LI Ning is the sole shareholder of Alpha Talent, a controlled corporation of Mr. LI Ning, he is thus taken to have a short position in the 25,230,000 Shares.

(iii) *Long position in Beijing Dong Xiang, an associated corporation (as defined in the SFO) of the Company*

Name of Director	Capacity	% interest held
CHEN Yi Hong	Corporate (Note)	20%

Note: The registered capital of Beijing Dong Xiang is held as to 20% by Shanghai Lei De. Shanghai Lei De is a controlled corporation of Mr. CHEN Yi Hong. As Beijing Dong Xiang is a limited liability company established in the PRC with its issued capital represented by equity interest, Mr. CHEN Yi Hong's interest in Beijing Dong Xiang is represented by a percentage of the equity interest and not by shares.

(b) Interests and short positions of substantial shareholders in the Shares

As at the Latest Practicable Date, so far as the Directors are aware, the following persons had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
LI Chun (<i>Note 1</i>)	370,174,000 (Long position)	Interest of controlled corporation	Personal	36.18%
Victory Mind Assets Limited (<i>Note 1(a)</i>)	220,174,000 (Long position)	Beneficial owner	Corporate	21.52%
Champion Link Capital Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Beneficial owner	Corporate	14.66%
Dragon City Management Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Trustee	Corporate	14.66%
Cititrust (Cayman) Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Trustee	Corporate	14.66%
Tetrad Ventures Pte. Ltd. (<i>Note 2</i>)	140,055,500 (Long position)	Investment manager	Corporate	13.69%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (<i>Note 2</i>)	140,055,500 (Long position)	Interest of controlled corporation	Corporate	13.69%
GIC Special Investments Pte. Ltd. (<i>Note 2</i>)	140,055,500 (Long position)	Interest of controlled corporation	Corporate	13.69%
Government of Singapore Investment Corporation Pte. Ltd. (<i>Note 2</i>)	140,055,500 (Long position)	Interest of controlled corporation	Corporate	13.69%

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
JPMorgan Chase & Co (Note 3)	48,686,000 (Long position)	Investment manager	Corporate	4.76%
	15,912,000 (Long position)	Custodian Corporation/ Approved lending agent	Corporate	1.56%
Fidelity International Limited	60,688,000 (Long position)	Investment manager	Corporate	5.93%

Notes:

1. Mr. LI Chun is taken to be interested in an aggregate of 370,174,000 Shares held by Victory Mind and Champion Link, respectively, as follows:
 - (a) 220,174,000 Shares are held by Victory Mind which is owned as to 37.894% by Mr. LI Chun. Victory Mind is a controlled corporation of Mr. LI Chun; and
 - (b) 150,000,000 Shares are held by Champion Link, which is wholly owned by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. LI Chun and his brother, Mr. LI Ning. Mr. LI Chun is the settlor of the Gingko Trust and is taken to be interested in the 150,000,000 Shares that Champion Link is interested.
2. 140,055,500 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd. Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd.
3. 15,912,000 Shares are held in the lending pool by JPMorgan Chase & Co.
4. Mr. LI Ning is also a substantial shareholder of the Company. Please refer to the section "Interests and short positions of Directors and chief executive in the Shares" under paragraph 2(a) in this Appendix I for the disclosure of interests of Mr. LI Ning.

(c) Substantial shareholders in other members of the Group

As at the Latest Practicable Date, so far as the Directors are aware, the following parties were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group:

Name of member of the Group	Name of substantial shareholder	Interest in share capital/equity interest	Percentage of shareholding
北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.)	Shanghai Lei De	Equity Interest	20%
廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.)	廣東健力保集團有限公司 (Guangdong Jianlibao Group Co., Ltd.)	Equity interest	20%

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Group were made up to.

4. LITIGATION

None of the members of the Group was at present engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

5. CONSENT OF EXPERT

Access Capital, the independent financial adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name in the form and context in which it appears. Access Capital is a licensed corporation under the SFO, to conduct types 1, 4, 6 and 9 regulated activities under the SFO and has the necessary qualification required to provide independent advice to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, no director of the above expert had any direct or indirect interest in any assets which have been, since 31 December 2004 (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 were proposed to be acquired or disposed of by or leased to any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with the Company or any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation, other than statutory compensation.

7. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date:

- (a) other than Mr. CHEN Yi Hong, an executive Director, who was materially interested in the Equity Transfer Agreement and the Assignment Agreement, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group; and
- (b) other than Mr. CHEN Yi Hong, an executive Director, who had an indirect interest in the Disposal and the Assignment, none of the Directors had any direct or indirect interest in any assets which have been since 31 December 2004, 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 any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, Mr. CHEN Yi Hong owns 80% equity interest in Shanghai Tai Tan which was set up to acquire Beijing Dong Xiang. As Shanghai Tai Tan will primarily be engaged in the business of technical development, design, manufacturing and retailing of sports goods and cloth, it is likely to compete either directly or indirectly with the business of the Group after it has commenced business and acquired the 80% interest in Beijing Dong Xiang.

Other than Mr. CHEN Yi Hong, as at the Latest Practicable Date, none of the Directors or their respective associates has interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

9. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 66 of the articles of association of the Company, at any Shareholders' general meeting, a resolution put to the vote shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the meeting;
- (b) by at least three (3) Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting;
- (c) by one (1) or more Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by one (1) or more Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

In accordance with the Hong Kong Listing Rules, the votes of the Independent Shareholders at the EGM will be taken by a poll and Mr. CHEN Yi Hong, Mr. CHEN Yi Liang, Ms. LIU Pei Ying, Mr. QIN Da Zhong and their respective associates will abstain from voting in respect of the ordinary resolution to approve the Equity Transfer Agreement and the Assignment Agreement at the EGM because of their interest in these transactions.

10. MISCELLANEOUS

- (a) As at the Latest Practicable Date, Mr. TAN Wee Seng is the Company Secretary and Qualified Accountant of the Company. Mr. TAN Wee Seng is a member of the Chartered Institute of Management Accountants.
- (b) The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Company in Hong Kong is Suites 2804-5, Shell Tower, Times Square, Causeway Bay, Hong Kong.

- (c) As at the date of this circular, the executive Directors are Mr. LI Ning, Mr. ZHANG Zhi Yong, Mr. TAN Wee Seng and Mr. CHEN Yi Hong; the non-executive Directors are Mr. LIM Meng Ann, Mr. Stuart SCHONBERGER and Mr. FONG Ching, Eddy; and the independent non-executive Directors are Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei and Mr. CHAN Chung Bun, Bunny.
- (d) The share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the case of any discrepancy, the English text of this circular and form of proxy shall prevail over the Chinese text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suites 2804-5, Shell Tower, Times Square, Causeway Bay, Hong Kong during normal business hours (except public holidays) from the date of this circular up to and including 8 August 2005:

- (a) the Equity Transfer Agreement;
- (b) the Assignment Agreement;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (d) the letter of advice from Access Capital as set out in this circular;
- (e) the written consent from Access Capital referred to in paragraph 5 of this appendix.

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 OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “Extraordinary General Meeting”) of Li Ning Company Limited (the “Company”) will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 11 August 2005 at 10:00 a.m.:

To consider and approve the following resolution as an ordinary resolution of the Company:

“THAT:

- (a) the Equity Transfer Agreement and the Disposal contemplated therein be and are hereby approved;
- (b) the Assignment Agreement and the Assignment contemplated therein be and are hereby approved;
- (c) the execution of the Equity Transfer Agreement by Shanghai Yue Ao and the Assignment Agreement by Shanghai Li Ning be and is hereby approved, confirmed and ratified; and
- (d) for the purpose of this resolution:

“Assignment” means the assignment by Shanghai Li Ning to Shanghai Tai Tan of the debts in the aggregate sum of RMB36,200,000 owed by Beijing Dong Xiang to Shanghai Li Ning under the Assignment Agreement;

“Assignment Agreement” means the agreement dated 30 June 2005 entered into between Shanghai Li Ning and Shanghai Tai Tan;

“Beijing Dong Xiang” means 北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.), a limited liability company established in the PRC;

“Disposal” means the disposal of 80% equity interest in Beijing Dong Xiang by Shanghai Yue Ao to Shanghai Tai Tan under the Equity Transfer Agreement;

“Equity Transfer Agreement” means the agreement dated 30 June 2005 entered into between Shanghai Yue Ao and Shanghai Tai Tan;

NOTICE OF EXTRAORDINARY GENERAL MEETING

“PRC” means the People’s Republic of China;

“Shanghai Li Ning” means 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited), a wholly foreign owned enterprise established in the PRC;

“Shanghai Tai Tan” means 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a limited liability company established in the PRC; and

“Shanghai Yue Ao” means 上海悅奧體育用品有限公司 (Shanghai Yue Ao Sporting Goods Co., Ltd.), a limited liability company established in the PRC.”

By Order of the Board
LI NING COMPANY LIMITED
LI Ning
Chairman

Hong Kong, 25 July 2005

Notes:

- (A) A Shareholder entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (B) A form of proxy for use at the above meeting (or at any adjournment thereof) is enclosed in the circular of the Company dated 25 July 2005. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarized copy of such power or authority shall be deposited at the Company’s Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for the holding of the above meeting or at any adjournment thereof.
- (C) The circular of the Company dated 25 July 2005 provides information in relation to the proposed ordinary resolution.