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LI NING COMPANY LIMITED

(李 寧 有 限 公 司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

CONNECTED AND DISCLOSEABLE TRANSACTIONS

DISPOSAL OF 80% EQUITY INTEREST IN A SUBSIDIARY OF THE COMPANY

AND

ASSIGNMENT OF DEBTS RELATED TO SUCH DISPOSAL

Shanghai Yue Ao (a subsidiary of the Company) agreed to transfer 80% equity interest in Beijing Dong Xiang (currently also a subsidiary of the Company) to Shanghai Tai Tan for a consideration of RMB8,614,000 (equivalent to approximately HK\$8,088,300). Shanghai Tai Tan is a company as to 93% owned by Mr. CHEN Yi Hong (an executive Director) and his spouse and is therefore a connected person of the Company under the Hong Kong Listing Rules.

Concurrent with the Disposal, Shanghai Li Ning (a subsidiary of the Company) 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 Shanghai Tai Tan for a consideration of RMB36,200,000 (equivalent to approximately HK\$33,990,600).

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.

The Disposal is in line with the Group's strategic repositioning to redirect its resources 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. The KAPPA License Agreements are short term arrangements between the Group and the BasicNet Group and will expire on 31 December 2007. 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. 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.

The Disposal and the Assignment constitute connected transactions and also discloseable transactions for the Company under the Hong Kong Listing Rules. Such transactions are subject to the approvals of the Independent Shareholders.

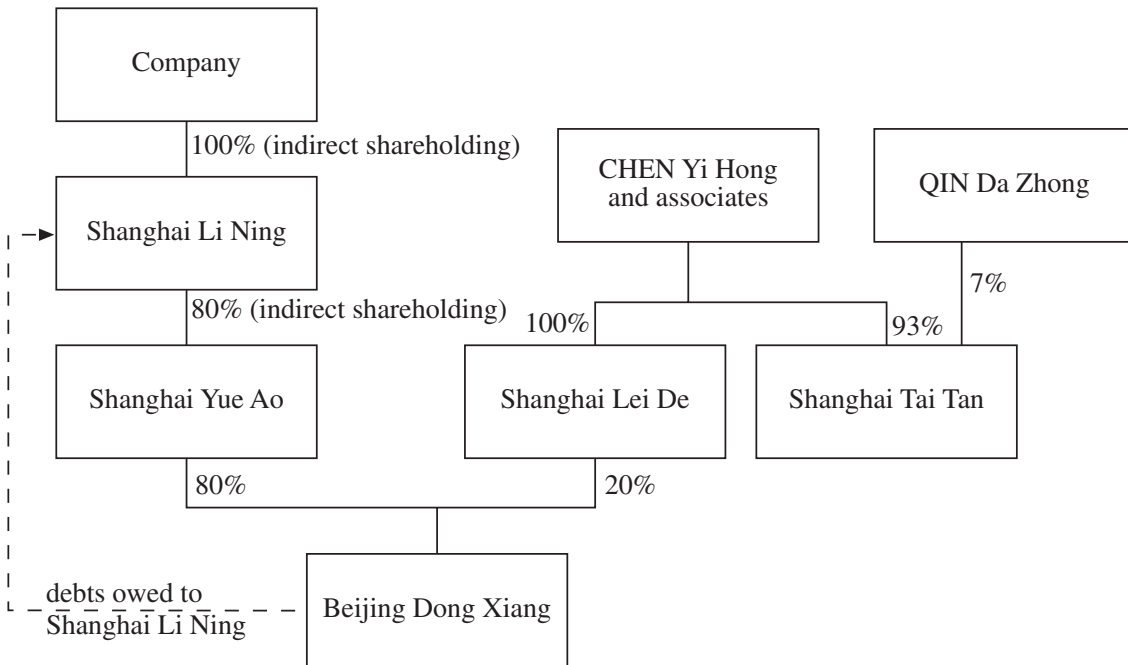
Beijing Dong Xiang is currently held as to 80% by Shanghai Yue Ao (which is an indirect wholly owned subsidiary of the Company) and 20% by Shanghai Lei De (which is owned by Mr. CHEN Yi Hong and his brother, Mr. CHEN Yi Liang). Mr. CHEN Yi Hong is an executive Director and is primarily responsible for the overall management of Beijing Dong Xiang. Beijing Dong Xiang owes certain debts to Shanghai Li Ning (which is another indirect wholly owned subsidiary of the Company and a holding company of Beijing Dong Xiang). It is proposed that (a) the 80% equity interest in Beijing Dong Xiang be transferred to Shanghai Tai Tan (a company owned as to 93% by Mr. CHEN Yi Hong and his spouse) (the Disposal) and (b) the debts owed by Beijing Dong Xiang to Shanghai Li Ning be assigned to Shanghai Tai Tan (the Assignment). The Disposal and the Assignment constitute connected transactions and discloseable transactions of the Company under the Hong Kong Listing Rules.

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. The activities of BasicNet Group include distributing products through a global network of licensees and independent companies. 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 mainly for the purpose of providing performance guarantee in relation to the performance of Beijing Dong Xiang's obligations under the KAPPA Licensing Agreements.

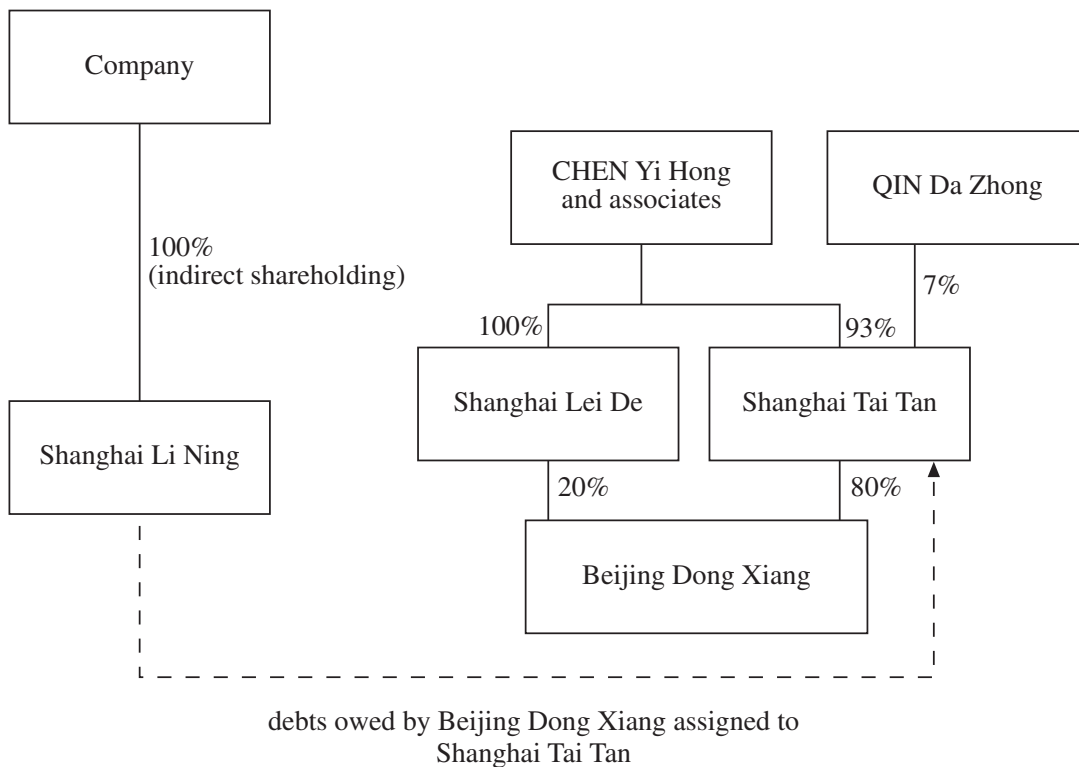
To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, BasicNet and its ultimate controlling shareholder(s) are third parties independent of the Company and connected persons of the Company.

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.

Shareholding chart before the Disposal and the Assignment



Shareholding chart after the Disposal and the Assignment



THE AGREEMENTS

The Equity Transfer Agreement

Date of the Equity Transfer Agreement

30 June 2005

Parties to the Equity Transfer Agreement

- (i) Shanghai Yue Ao as vendor
- (ii) Shanghai Tai Tan as purchaser

The Disposal

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.

The Assignment Agreement

Date of the Assignment Agreement

30 June 2005

Parties to the Assignment Agreement

- (i) Shanghai Li Ning as assignor
- (ii) Shanghai Tai Tan as assignee

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.

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.

The Equity Transfer Agreement and the Assignment Agreement will become effective only when the approval of the Disposal and the Assignment from the Independent Shareholders has been obtained in a general meeting of the Company in accordance with the Hong Kong Listing Rules.

BasicNet has given the consent in writing to the Disposal and the Assignment. The obligations of Shanghai Li Ning under the KAPPA License Agreements and the Supplemental Agreements will be released immediately after the Equity Transfer Agreement and the Assignment Agreement become effective.

THE CONSIDERATION

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.

The consideration for the Disposal was determined by reference to 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 Beijing Dong Xiang and the net asset value of Beijing Dong Xiang.

Based on the net assets value of Beijing Dong Xiang of approximately RMB891,000 (equivalent to approximately HK\$836,620) 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.

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.

The Group intends to use the proceeds from the Disposal 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.

REASONS AND BENEFITS FOR THE DISPOSAL AND THE ASSIGNMENT

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. 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 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 new strategy. The Company has made a separate announcement today on its joint venture cooperation with Aigle International S.A., a corporation organized under the laws of France and the owner of the “AIGLE” brand.

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 it expires. 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 in the promotion of the KAPPA brand in order to develop the business. The Company has also 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. Such proposals have, however, not been accepted by BasicNet. As the short term arrangement under the KAPPA License Agreements is no longer in line with the Company’s new business strategy, the Company had considered the early termination of the KAPPA License Agreements. However, such early termination of the KAPPA License Agreements will result in the Company paying damages which is not in the interest of the Company and its shareholders. 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, notwithstanding a connected person of the Company, is a better option than early termination of the KAPPA License Agreements.

Further, 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.

Given the strategic re-positioning of the Group and in view of the potential gain from the Disposal, 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.

The Directors also consider that the transactions are on normal commercial terms and are fair and reasonable as far as the Company and its shareholders are concerned.

INFORMATION ON THE COMPANY, BEIJING DONG XIANG, SHANGHAI YUE AO, SHANGHAI LI NING AND SHANGHAI TAI TAN

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.

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.

Shanghai Yue Ao is an indirect wholly owned subsidiary of Shanghai Li Ning and an indirect wholly owned subsidiary of the Company. It primarily engages in the sale of footwear and apparel products to the other companies within the Group.

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

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

CONNECTED AND DISCLOSEABLE TRANSACTIONS

Shanghai Tai Tan is 93% owned by Mr. CHEN Yi Hong (an executive Director) and his spouse and is a connected person 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 board of Directors 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. An independent financial adviser has also been appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Disposal and the Assignment.

A circular containing, among other things, details of the Disposal and the Assignment, a letter from the independent financial adviser containing its advice to the Independent Board Committee on the Disposal and the Assignment, the recommendation of the Independent Board Committee regarding the Disposal and the Assignment to the Independent Shareholders and a notice of the EGM will be dispatched to the shareholders of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

Term	Meaning
“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
“EGM”	Extraordinary general meeting of the Company proposed to be convened for the approval of, among other things, the Disposal and the Assignment
“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
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“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
“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 agreements and know-how licence agreement dated 14 February 2002, as disclosed in the Company’s listing prospectus dated 15 June 2004, 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
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“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

“Supplemental Agreements” the supplemental agreements to the KAPPA License Agreements dated 31 December 2002, as disclosed in the Company’s listing prospectus dated 15 June 2004, 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

“%” per cent

Translation of RMB into HK\$ is made in this announcement, for illustration purpose only, at the rate of HK\$1.00 = RMB 1.065.

As at the date of this announcement, 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.

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

Hong Kong, 30 June 2005

Please also refer to the published version of this announcement in South China Morning Post and Hong Kong Economic Times.