

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

DISCLOSEABLE TRANSACTION IN RELATION TO THE EXECUTION OF THE SECOND SUPPLEMENTAL AGREEMENT TO THE LICENSE AGREEMENT REGARDING LOTTO TRADEMARKS

In view of the business and financial performance of the Group's licensing business of the Lotto brand and changes to the market conditions in China, on 11 June 2012, Lotto Sport, Li Ning Sports and Lotto (China) entered into the Second Supplemental Agreement to amend certain terms of the Original License Agreement with immediate effect.

The Board believes that the Amended License Agreement would better safeguard the Group's interest and mitigate its financial burden by the substantial decrease in the aggregate amount of minimum royalties payable and the amortisation costs of the finance costs attributable to the License for the remaining term of the License. The entering into the Second Supplemental Agreement is also in line with the Group's strategy to concentrate the Group's resources on the LI-NING brand.

Following the execution of the Second Supplemental Agreement, an asset impairment loss will be charged to the income statement of the Group for the six months ending 30 June 2012, which is one-off and non-cash in nature.

The applicable percentage ratios for the transaction under the Second Supplemental Agreement exceed 5% but are less than 25%. As such, the transaction contemplated under the Second Supplemental Agreement constitute a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules and are subject to the announcement requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

Reference is made to the Company's announcement dated 31 July 2008 and the circular dated 19 August 2008 in relation to, among other things, the entering into the License Agreement between Lotto Sport as the licensor and Li Ning Sports as the licensee, pursuant to which Lotto Sport agreed to grant Li Ning Sports an exclusive license for a term of 20 years from 1 January 2009 to 31 December 2028 to use the Lotto Trademarks in China in connection with the development, manufacture, marketing, advertising, promotion, distribution and sale of the Licensed Products in accordance with the terms of the License Agreement. On 15 May 2009, Lotto Sport, Li Ning Sports and Lotto (China) entered into the First Supplemental Agreement pursuant to which the parties agreed to assign and transfer all the rights and obligations of Li Ning Sports under the License to Lotto (China) and Li Ning Sports became the guarantor of Lotto (China)'s obligations and liabilities under the License Agreement.

In view of the business and financial performance of the Group's licensing business of the Lotto brand and changes to the market conditions, on 11 June 2012, Lotto Sport, Li Ning Sports and Lotto (China) entered into the Second Supplemental Agreement to amend certain terms of the Original License Agreement with immediate effect.

TERMS OF THE SECOND SUPPLEMENTAL AGREEMENT

Date

11 June 2012

Parties

- (1) Lotto Sport, as the licensor;
- (2) Lotto (China), as the licensee; and
- (3) Li Ning Sports, as the guarantor of Lotto (China)'s obligations and liabilities under the Amended License Agreement

Term

Pursuant to the Second Supplemental Agreement, the termination date of the License shall be amended to 31 December 2018 (from the original termination date of 31 December 2028 under the Original License Agreement). Therefore, the License will expire on 31 December 2018, if not terminated earlier by the parties pursuant to its terms.

Royalties payment

Pursuant to the Second Supplemental Agreement, the minimum sales targets and the minimum royalties payable by Lotto (China) under the Original License Agreement have been revised after arm's length negotiations between the parties to the agreement such that the aggregate amount of the minimum royalties payable by Lotto (China) for the 10-year term from 1 January 2009 to 31 December 2018 shall be revised to RMB210,100,000 (instead of the aggregate minimum amounts of RMB933,900,000 for the 20-year term from 1 January 2009 to 31 December 2028 under the Original License Agreement). Excluding the aggregate amount of minimum royalties already paid by Lotto (China) for the three financial years ended 31 December 2009, 2010 and 2011, the aggregate amount of minimum royalties payable by Lotto (China) to Lotto Sport for the remaining term of the License (i.e. from 1 January 2012 to 31 December 2018) is approximately RMB182,400,000 (as opposed to RMB906,200,000 from 1 January 2012 to 31 December 2028 under the Original License Agreement). It is also stipulated in the Second Supplemental Agreement that payment for the remaining minimum royalties for 2012 shall be made by Lotto (China) in three instalments on or before 31 July 2012.

In consideration of Lotto Sport entering into the Second Supplemental Agreement, Lotto (China) shall pay Lotto Sport RMB45,000,000, the amount of which was determined after arm's length negotiations between the parties to the agreement. The consideration will be settled by way of cash in two equal instalments of RMB22,500,000 each, where the first half shall be settled on or before 31 July 2013 and the remaining half shall be settled on or before 31 October 2013.

Save for the variation of terms as disclosed in this announcement, no other material amendments have been made to the Original License Agreement.

FINANCIAL EFFECTS OF THE LICENSE ON THE GROUP

In accordance with the Company's accounting policy which follows the International Financial Reporting Standards, the License with the sum of the capitalised present values of the minimum amounts of royalties payable over the term of the License should be recognised as intangible asset of the Group, which would be amortised in each corresponding year using the straight-line method. The difference between the sum of the minimum amounts of royalties payable and the sum of their capitalised present values should be accounted as amortisable finance costs of the Group and would be recognised and amortised in each corresponding year using the effective interest rate method. The amortisation of both the intangible asset and the finance costs attributable to the License will be charged to the consolidated income statement of the Group for the corresponding year and are non-cash in nature.

The abovementioned accounting policy has been adopted by the Company since 1 January 2009 for the Original License Agreement and the total amortisation costs for both the intangible asset and the finance costs attributable to the License and charged to the income statements of the Group for the three financial years ended 31 December 2009, 2010 and 2011 amounted to approximately RMB156,000,000. As at 31 December 2011, the remaining value of the intangible asset and the remaining amount of the amortisable finance costs attributable to the License under the Original License Agreement were approximately RMB334,700,000 and RMB458,200,000, respectively. With effect from the Execution Date and by adopting the same accounting policy, the remaining value of the intangible asset and the remaining amount of the amortisable finance costs attributable to the License under the Amended License Agreement would decrease to approximately RMB127,800,000 and RMB54,600,000, respectively.

Following the execution of the Second Supplemental Agreement, an income relating to the revision of the Original License Agreement of RMB68,300,000, net of the consideration paid for entering into the Second Supplemental Agreement, which is one-off in nature, will be recorded for the Group for the six months ending 30 June 2012. In addition, in view of the market conditions and the business performance of the licensing business of the Lotto brand, the intangible asset attributable to the License under the Amended License Agreement of approximately RMB127,800,000 will be fully provided and recognised as expenses of the Group for the six months ending 30 June 2012 under prudence consideration. Setting off the income relating to the revision of the Original License Agreement would result in a net loss in respect of the License of RMB59,500,000 for Group for the six months ending 30 June 2012, which is one-off in nature.

REASONS FOR AND BENEFITS OF THE AMENDED LICENSE AGREEMENT

The Group started its investment in the Lotto brand in 2009 by entering into the License Agreement. After three years of operation, despite growing revenue and brand recognition for the Lotto brand over the years, the pace of development of the licensing business of the Lotto brand has fallen short of the Group's expectation. Losses have been recorded for each of the three financial years ended 31 December 2009, 2010 and 2011 in respect of the licensing business of the Lotto brand and the amortisation costs of both the intangible asset and the finance costs attributable to the License as mentioned above under the paragraph headed "Financial Effects of the License on the Group" have also adversely affected the financial results of the licensing business of the Lotto brand for the three financial years ended 31 December 2009, 2010 and 2011. The Group remains cautious of the future prospects of the licensing business of the Lotto brand.

As a result, the Company has been in active discussion with Lotto Sport Italia to explore other ways to enhance the business cooperation. The parties both recognised that there have been changes in the market since the entering into the License Agreement in 2008 and agreed that the term of the License and the provisions regarding royalties payment under the Original License Agreement should be amended.

The Board believes that the Amended License Agreement would better safeguard the Group's interest and mitigate its financial burden by the substantial decrease in the aggregate amount of minimum royalties payable and the amortisation costs of the finance costs attributable to the License for the remaining term of the License.

The Directors are of the view that the Second Supplemental Agreement and the transactions contemplated therein are on normal commercial terms and such terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. It is also in line with the Group's strategy to concentrate the Group's resources on the LI-NING brand.

GENERAL

The applicable percentage ratios for the transaction under the Second Supplemental Agreement exceed 5% but are less than 25%. As such, the transaction contemplated under the Second Supplemental Agreement constitute a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules and are subject to the announcement requirement under Chapter 14 of the Listing Rules.

INFORMATION OF THE COMPANY, LOTTO (CHINA), LOTTO SPORT ITALIA AND LOTTO SPORT

Company and Lotto (China)

The Company is one of the leading sports brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes primarily under the LI-NING brand. The Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive supply chain management system and a retail distribution network in China, predominantly through outsourced manufacturing operations and franchised distribution.

Lotto (China), a wholly-owned subsidiary of the Group, is principally engaged in the sale of sporting goods under the Lotto brand in China.

Lotto Sport Italia and Lotto Sport

Lotto Sport Italia is a leading Italian sport brand company engaged, since 1973, in the design, development, marketing and distribution, on worldwide basis, of performance and lifestyle sport shoes, apparel and accessories.

Lotto Sport is principally involved in research and development, sourcing and quality control activities in support of Lotto Sport Italia and Lotto Sport Italia's licensees worldwide. It is the owner of the Lotto Trademarks in China, Hong Kong and Macau and is ultimately beneficially owned by Lotto Sport Italia.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Lotto Sport and its ultimate beneficial owner are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

DEFINITIONS

In this announcement, the following terms have the following meanings:

“Amended License Agreement”	the Original License Agreement as amended by the Second Supplemental Agreement
“Board”	the board of Directors
“China” or “PRC”	the People's Republic of China which excludes, for the purpose of this announcement only, Hong Kong, Macau and Taiwan
“Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Directors”	the directors of the Company
“Execution Date”	11 June 2012, being the date of the Second Supplemental Agreement
“First Supplemental Agreement”	the first supplemental agreement dated 15 May 2009 entered into between Lotto Sport, Li Ning Sports and Lotto (China) pursuant to which the parties agreed to, among other things, assign and transfer all the rights and obligations of Li Ning Sports under the License to Lotto (China) and Li Ning Sports became the guarantor of Lotto (China)'s obligations and liabilities under the License Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“License”	the license granted by Lotto Sport to Lotto (China) under the Original License Agreement
“License Agreement”	the license agreement dated 31 July 2008 entered into between Li Ning Sports and Lotto Sport
“Licensed Products”	the sports and leisure footwear, apparel and accessories as specified under the License Agreement, and such collections of products as may be agreed upon in writing by the parties thereto pursuant to the terms and conditions of the License Agreement

“Li Ning Sports”	李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lotto (China)”	樂途體育用品有限公司 (Lotto (China) Sport Ltd.), a company incorporated in the PRC
“Lotto Sport”	Lotto Sport H.K. Limited, a company incorporated in Hong Kong which is ultimately beneficially owned by Lotto Sport Italia
“Lotto Sport Italia”	Lotto Sport Italia S.p.A., a corporation established under the laws of Italy
“Lotto Trademarks”	the trademark registration and applications for registration, trade names and logos concerning the word and/or device of “Lotto” as set out in the License Agreement, and any further registration, applications for registration of such word, logo and/or device as may be agreed upon in writing by the parties thereto pursuant to the terms and conditions of the License Agreement. The Lotto Trademarks do not include the trademarks and logos concerning “Leggenda”, “Lotto Leggenda” and “Lotto Works” and these are not licensed
“Macau”	the Macau Special Administrative Region of the PRC
“Original License Agreement”	the License Agreement as amended by the First Supplemental Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Second Supplemental Agreement”	the second supplemental agreement dated 11 June 2012 entered into between Lotto Sport, Li Ning Sports and Lotto (China) pursuant to which the parties agreed to, among other things, amend certain terms under the Original License Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

In the event that the Chinese names of the PRC entities mentioned in this announcement are inconsistent with their respective English translations, the Chinese version shall prevail.

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

Hong Kong, 11 June 2012

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay. The non-executive directors are Mr. Chu Wah Hui, Mr. James Chun-Hsien Wei, Mr. Chen Yue, Scott and Mr. Kim Jin Goon. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny.