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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)

### REVISION OF ANNUAL CAP OF EXISTING CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 24 December 2015 in relation to, among others, the continuing connected transactions between the Company and the Viva China Group under the 2015 Master Agreement.

Based on the reasons mentioned in this announcement, it is expected that the amount of Services required from the Viva China Group will increase significantly for the current financial year and therefore the Board anticipates that the Original Annual Cap for the financial year ending 31 December 2018 will not be sufficient to meet the expected demand of the Group. Accordingly, the Board proposes to increase the Original Annual Cap for the financial year ending 31 December 2018 from RMB170,000,000 to RMB340,000,000 (i.e. the Revised Annual Cap).

Pursuant to Rule 14A.53 under the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transaction, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As the applicable percentage ratios set out in the Listing Rules in respect of the Revised Annual Cap for the continuing connected transactions under the 2015 Master Agreement are more than 1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements but exempt from approval by the independent Shareholders under the Listing Rules.

## **BACKGROUND**

### **The 2015 Master Agreement**

Reference is made to the announcement of the Company dated 24 December 2015 in relation to, among others, the continuing connected transactions between the Company and the Viva China Group under the 2015 Master Agreement.

On 24 December 2015, the Company entered into the 2015 Master Agreement with Viva China relating to the renewal of the then existing master agreement dated 4 January 2013, pursuant to which the Viva China Group may provide services (the “**Services**”) in relation to (i) brand or product endorsement; (ii) sponsorship and marketing; and (iii) event production and management to the Group for a term not exceeding three years commencing from 1 January 2016 to 31 December 2018 (or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier)). Pursuant to the 2015 Master Agreement, the Company and Viva China shall procure that the terms of the continuing connected transactions contemplated thereunder will be on normal commercial terms (or on terms no less favourable to the Company than terms available from Independent Third Parties).

### **Pricing Policy**

Pursuant to the terms of the 2015 Master Agreement, the service fees (the “**Service Fees**”) payable by the Group to the Viva China Group for the Services shall be determined on an arm’s length basis according to the following principles and other factors specific to each individual transaction:

- (1) if there is a prevailing market price, by reference to such market price;
- (2) if there is no prevailing market price, on normal commercial terms by reference to the price of comparable or similar transactions with an Independent Third Party. The Group will make enquiries on the prices of comparable or similar transactions with industry players and conduct researches, and then compare with the prices quoted by the Viva China Group; and
- (3) if both (1) and (2) above are not applicable, to be agreed between the parties on normal commercial terms comparable to those offered by the relevant party or other industry players to Independent Third Parties. Experienced staff in the Group will opine on the fairness and reasonableness of the relevant price by reference to the current and/or historical transaction prices of similar service offered by the relevant party or other industry players to Independent Third Parties.

For (2) and (3) above, the Group will ensure that the prices for the Services will be fair and reasonable, and no less favourable to the Group than that available from independent service providers.

## **Historical Transaction Amounts**

For the two financial years ended 31 December 2016 and 2017, the actual/estimated Service Fees paid by the Group in respect of the continuing connected transactions under the 2015 Master Agreement were as follows:

	<b>For the Financial Year ended 31 December 2016</b> (RMB)	<b>For the Financial Year ended 31 December 2017</b> (RMB)
Actual or Estimated Service Fees ( <i>Note 2</i> )	62,057,000	126,000,000 <i>(Note 1)</i>

*Notes:*

1. Being the estimated amount of the Service Fees for the financial year ended 31 December 2017 based on the unaudited management accounts of the Company for the year ended 31 December 2017.
2. Estimation of the Service Fees for the financial year ending 31 December 2018 is not practicable as at the date of this announcement.

## **REVISED ANNUAL CAP**

Based on the reasons mentioned in this announcement, it is expected that the amount of Services required from the Viva China Group will increase significantly for the current financial year and therefore the Board anticipates that the Original Annual Cap for the financial year ending 31 December 2018 will not be sufficient to meet the expected demand of the Group. Accordingly, the Board proposes to increase the Original Annual Cap for the financial year ending 31 December 2018 from RMB170,000,000 to RMB340,000,000 (i.e. the Revised Annual Cap).

### **Basis of the Revised Annual Cap**

The Revised Annual Cap has been determined by the Board based on the prevailing market price for provision of the Services, having taken into account of (i) the historical transactions amount and prices in respect of the Services; (ii) the anticipated future expansion in the scope and scale of the Services that the Group may require from the Viva China Group for the financial year ending 31 December 2018 as the Company intends to leverage on the extensive marketing resources of the Viva China Group in various sports; (iii) the trend of prices for similar transactions in the PRC market; (iv) the prices for the Services paid by the Group to Independent Third Parties in similar transactions on normal commercial terms in the ordinary and usual course of business; and (v) the business plans of the Group to achieve a healthy and sustainable growth of the Group.

Save for the revision to the Original Annual Cap for the financial year ending 31 December 2018, all other terms (including the pricing policy and basis) of the 2015 Master Agreement shall remain unchanged and continue to be in effect.

## **REASONS AND BENEFITS FOR REVISION OF THE ANNUAL CAP FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2018**

The Viva China Group is experienced in providing sports-related management and marketing services and has extensive marketing resources in various sports in the PRC. In the coming year, the Group expects to require more Services from the Viva China Group under the 2015 Master Agreement as the Company intends to leverage on the extensive marketing resources of the Viva China Group to participate in various sports in the PRC. Meanwhile, through Viva China's cooperation with the Group in the past seven years, the Viva China Group has secured a solid understanding of the Group's operations. By utilising the services of the Viva China Group, the Group will have better access to certain sports sponsorship resources and events promotion, which is conducive to the long-term stability of the Group's sports sponsorship and marketing initiatives. The Group will also be able to benefit from the synergies and crossover created from other sports resources of the Viva China Group.

For the above reasons, the Board estimated that the Original Annual Cap for the financial year ending 31 December 2018 may not be sufficient to meet the expected demand of the Group. Hence, the revision of the Original Annual Cap for the financial year ending 31 December 2018 is required.

The Directors (including the independent non-executive Directors) consider that (i) the continuing connected transactions contemplated under the 2015 Master Agreement are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (ii) the proposed Revised Annual Cap is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the date of this announcement, Mr. Li Ning, an executive Director of the Company, is deemed to be interested in approximately 66.22% of the total issued capital of Viva China based on the company information sheet dated 8 January 2018 of Viva China, thus has a material interest in the transactions contemplated under the 2015 Master Agreement. Mr. Li Qilin, a non-executive Director of the Company, is also an executive director of Viva China as at the date of this announcement. Therefore Mr. Li Ning and Mr. Li Qilin have abstained from voting on the board resolutions approving the Revised Annual Cap. Other than Mr. Li Ning and Mr. Li Qilin, none of the other Directors has any material interest in the transactions contemplated under the 2015 Master Agreement nor are they required to abstain from voting on the board resolutions approving the Revised Annual Cap.

## **INFORMATION ON THE COMPANY AND THE VIVA CHINA GROUP**

The Company is one of the leading sports brand companies in the PRC, and the Group is principally engaged in brand development, design, sale and distribution of sport-related footwear, apparel, equipment and accessories for professional and leisure purposes in the PRC.

The Viva China Group is principally engaged in, (i) sports competition and event production and management, sports talent management, and provision of sports-related consultancy service; and (ii) property and community development, research and development, manufacturing, marketing and sales of construction materials, operation of sports park or sports centre and provision of consultancy and sub-contracting services.

## LISTING RULES IMPLICATIONS

As at the date of this announcement, Viva China, who directly holds approximately 25.21% interests in the Company, is a substantial Shareholder and thus a connected person of the Company. Therefore, the transactions contemplated under the 2015 Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.53 under the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transaction, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As the applicable percentage ratios set out in the Listing Rules in respect of the Revised Annual Cap for the continuing connected transactions under the 2015 Master Agreement are more than 1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements but exempt from approval by the independent Shareholders under the Listing Rules.

## DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“2015 Master Agreement”	the agreement dated 24 December 2015 entered into between the Company and Viva China in relation to, among others, the continuing connected transactions of the Group with the Viva China Group as contemplated under the 2015 Master Agreement;
“Board”	the board of Directors;
“Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange (stock code: 2331);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;

“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Independent Third Parties”	person(s) or company(ies) which is(are) independent of the Directors, substantial Shareholders and chief executive (as defined under the Listing Rules) of the Group;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Original Annual Cap(s)”	the original maximum annual service fees under the 2015 Master Agreement for the two financial years ended 31 December 2016 and 2017 and the financial year ending 31 December 2018 in an amount of RMB140,000,000, RMB154,000,000 and RMB170,000,000 respectively;
“PRC”	the People’s Republic of China;
“Revised Annual Cap”	the revised maximum annual service fees under the 2015 Mater Agreement for the financial year ending 31 December 2018 in an amount of RMB340,000,000;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;
“Shareholder(s)”	the holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Viva China”	Viva China Holdings Limited, a company incorporated in the Cayman Island with limited liability, the issued shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8032) and a substantial Shareholder of the Company;

“Viva China Group”

Viva China and its subsidiaries;

“%”

per cent.

By order of the Board

**Li Ning Company Limited**

**Li Ning**

*Executive Chairman*

*and Interim Chief Executive Officer*

Hong Kong, 10 January 2018

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