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Incorporated in Bermuda with limited liability
Stock Code: 494

**SALE OF PROPERTY COMPANY
AND
LEASE BACK OF A PROPERTY**

CONNECTED TRANSACTION & CONTINUING CONNECTED TRANSACTION

The Board announces that on 30 December 2016, an indirect wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement to dispose of the entire issued share capital of the Property Company which solely owns the Property to the Purchaser for a cash consideration of GBP3,500,000 (approximately US\$4,375,000). The Group also agreed to lease back the Property at an annual rental of GBP230,000 (approximately US\$287,500) for a term up to 30 December 2019.

As the Purchaser is a connected person of the Company by virtue of its relationship with Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun more particularly set out below, the Disposal constitutes a connected transaction for the Company under the Listing Rules. Since the highest applicable percentage ratio in respect of the Disposal is more than 0.1% but less than 5%, the Disposal is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Leaseback forms part of the transactions contemplated under the Master Lease Agreement, which constitute a continuing connected transaction for the Company under the Listing Rules subject to the reporting, annual review and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(1) SALE AND PURCHASE AGREEMENT IN RESPECT OF THE PROPERTY COMPANY

- Date:** 30 December 2016
- Parties:**
- (1) LF Properties Limited, as the vendor. It is a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company.
 - (2) Fung Properties (UK) Limited, as the purchaser. It is a company incorporated in England and Wales and is indirectly owned by Dr. William Fung Kwok Lun and a trust established for the benefit of the family members of Dr. Victor Fung Kwok King. Its principal activities are properties investment.
- Asset to be sold:** The entire issued share capital, i.e. US\$1, of the Property Company, which is a property holding company, and the principal asset of which is the Property. The Property was occupied by the Group prior to the Disposal and are intended to be occupied by the Group pursuant to the Leaseback.
- Consideration:** GBP3,500,000 (approximately US\$4,375,000) paid by the Purchaser in cash at completion of the Disposal.
- Completion:** The Disposal was completed immediately after the signing of the Sale and Purchase Agreement.

The consideration for the disposal of the Property Company was agreed after arm's length negotiations between the parties with reference to the two valuations for the Property prepared by two independent professional valuers engaged by the Group and the Purchaser respectively with valuation dates as at 1 September 2016 and 13 September 2016. To the best of the Directors' knowledge, the two independent professional valuers and their respective ultimate beneficial owners are independent of the Company and its connected persons.

The unaudited net profit before and after tax of the Property Company for the year ended 31 December 2014 were approximately GBP0.09 million (approximately US\$0.11 million) and GBP0.07 million (approximately US\$0.08 million) respectively. The unaudited net profit before and after tax of the Property Company for the year ended 31 December 2015 were approximately GBP0.09 million (approximately US\$0.11 million) and GBP0.07 million (approximately US\$0.08 million) respectively. The unaudited book value of the Property Company as at 31 October 2016 was approximately GBP1.95 million (approximately US\$2.4 million).

Upon completion of the Disposal, the Property Company has ceased to be a subsidiary of the Company.

(2) LEASEBACK

At the time of signing the original lease of the Property (the principal terms of which are set out below), both the lessor and the lessee were wholly-owned subsidiaries of the Company:

- (i) Parties:
 - (1) Property Company disposed to the Purchaser as lessor; and
 - (2) Black Cat Fireworks Limited, an indirect wholly-owned subsidiary of the Company, as the lessee.
- (ii) Term of the original lease: 31 December 2004 to 30 December 2019 (both dates inclusive) with the right to terminate by either party by giving eighteen (18) months' notice.
- (iii) Rent: GBP230,000 (approximately US\$287,500) (exclusive of VAT and any fees and charges) per annum which is within the annual caps in respect of the transactions contemplated under the Master Lease Agreement of US\$70,000,000 for each of three years ending 31 December 2019. The said rent is determined after arm's length negotiation between the parties with reference to the two valuation reports on the market rental for the Property prepared by the two independent professional valuers engaged by the Group and the Purchaser respectively.

The Company has decided to lease back the Property from the Property Company under the said original lease after completion of the Disposal. As the Property Company has become an associate of FH 1937 after the said completion, the unexpired term of the original lease constitutes a continuing connected transaction for the Company under the Listing Rules. As announced by the Company on 14 November 2016, the Company entered into the Master Lease Agreement with FH 1937 to provide a framework of the terms of the properties leasing or sub-leasing and/or licensing arrangements by the Group from/to FH 1937 Group for a term of three years commencing from 1 January 2017 and ending on 31 December 2019. The term of the original lease is coterminous with the term of the Master Lease Agreement. Hence, the original lease falls within the ambit of the Master Lease Agreement, and the Leaseback (together with all other transactions contemplated under the Master Lease Agreement) will be subject to annual caps in respect of the Master Lease Agreement.

REASONS FOR THE DISPOSAL AND LEASEBACK

The Directors consider that the Disposal and the Leaseback allow the Group to achieve its asset light strategy while obtaining long lease for the Group's use.

The Directors (including the Independent Non-executive Directors) consider that the terms of the Disposal and the Leaseback are on normal commercial terms and fair and reasonable after arm's length negotiations between the parties, and the Disposal and the Leaseback are in the interests of the Company and its shareholders as a whole.

Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are considered to have a material interest in the Disposal and the Leaseback by virtue of their interests in the Purchaser, and therefore abstained from voting on the board resolutions in respect of the Disposal and the Leaseback. Mr. Spencer Theodore Fung, being the son of Dr. Victor Fung Kwok King, also abstained from voting on the board resolutions in respect of the Disposal and the Leaseback.

USE OF PROCEEDS

As a result of the Disposal, the Group is expected to record an unaudited gain of approximately US\$1.9 million. Such gain is computed based on the consideration of the Disposal of GBP3.5 million (approximately US\$4.4 million) and the unaudited book value of the Property Company of GBP1.95 million (approximately US\$2.4 million) as at 31 October 2016 after capitalization of certain indebtedness and deduction of estimated tax and other expenses of approximately US\$0.1 million.

The net proceed from the Disposal is estimated to be approximately US\$4.4 million and will be utilised as general working capital of the Group.

LISTING RULES IMPLICATIONS

To the best knowledge of the Directors, the Purchaser is indirectly owned by Dr. William Fung Kwok Lun and a trust established for the benefits of the family members of Dr. Victor Fung Kwok King. As Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are the Honorary Chairman and Group Chairman of the Company respectively, the Purchaser is thus a connected person of the Company.

Accordingly, the Disposal constitutes a connected transaction for the Company under the Listing Rules. Since the highest applicable percentage ratio in respect of the Disposal is more than 0.1% but less than 5%, the Disposal is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement, under Chapter 14A of the Listing Rules.

The Leaseback forms part of the transactions contemplated under the Master Lease Agreement, which constitutes a continuing connected transaction for the Company under the Listing Rules subject to the reporting, annual review and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Group is recognized as the world's leader in consumer goods design, development, sourcing and logistics. It specializes in responsibly managing supply chains of high-volume, time-sensitive goods for leading retailers and brands worldwide.

The Purchaser is indirectly owned by Dr. William Fung Kwok Lun and a trust established for benefits of the family members of Dr. Victor Fung Kwok King. Its principal activities are properties investment.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:-

“associate(s)”, “connected person(s)”, “percentage ratio(s)”, “substantial shareholder(s)”	each has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Property Company under the Sale and Purchase Agreement
“FH 1937”	Fung Holdings (1937) Limited, a company incorporated in Hong Kong with limited liability, which is a substantial shareholder of the Company
“FH 1937 Group”	FH 1937 and its associates (excluding the Group), including the Purchaser
“GBP”	Pounds, the lawful currency of the United Kingdom
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Leaseback”	the leasing of the Property by the Group from the Property Company, the principal terms of which are set out in the announcement
“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange
“Master Lease Agreement”	the group master lease agreement entered into between the Company and FH 1937 on 14 November 2016 in relation to the properties leasing or sub-leasing and/or licensing arrangements by the Group from/to FH 1937 Group
“Property”	the property located at the Black Cat Site, Blackmoorfoot Road, Crosland Hill, Huddersfield, HD4 7AD and registered with HM Land Registry Number WYK630686 with site area of 42 acres to be disposed by the Vendor to the Purchaser

“Property Company”	Empire Knight Group Limited, a company incorporated in the British Virgin Islands and, prior to the Disposal, an indirect wholly-owned subsidiary of the Company
“Purchaser”	Fung Properties (UK) Limited, a company incorporated in England and Wales and is indirectly owned by Dr. William Fung Kwok Lun and a trust established for the benefits of the family members of Dr. Victor Fung Kwok King.
“Sale and Purchase Agreement”	the agreement for the sale and purchase of Property Company dated 30 December 2016 between the Vendor and the Purchaser as described in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	US dollar(s), the lawful currency of the United States of America
“Vendor”	LF Properties Limited, an indirect wholly-owned subsidiary of the Company

Unless otherwise stated, all references in this announcement to US\$ stated in brackets are for illustration only and are referenced to US\$ based on an approximate exchange rate of GBP1 = US\$1.25. No representation is made that any amount in US\$ had been or could be converted at the above rate or at any other rate or at all.

By Order of the Board
Terry WAN Mei Chow
Company Secretary, Li & Fung Limited

Hong Kong, 30 December 2016

As at the date of this announcement, Executive Directors of the Company are William Fung Kwok Lun (Group Chairman), Spencer Theodore Fung (Group Chief Executive Officer) and Marc Robert Compagnon; Non-executive Director is Victor Fung Kwok King (Honorary Chairman); Independent Non-executive Directors are Paul Edward Selway-Swift, Allan Wong Chi Yun, Martin Tang Yue Nien and Margaret Leung Ko May Yee.