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Incorporated in Bermuda with limited liability
Stock Code: 494

CONTINUING CONNECTED TRANSACTIONS

RENEWAL OF MASTER AGREEMENT FOR LEASING OF PROPERTIES

The Board announces that on 21 November 2019, the Company entered into the Second Renewal Master Lease Agreement with FH 1937 to provide a framework of the terms of the property leasing, sub-leasing and/or licensing arrangements by the Group from/to the FH 1937 Group for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

Since FH 1937 is a substantial shareholder of the Company, FH 1937 and its associates are connected persons of the Company. Accordingly, the transactions contemplated under the Second Renewal Master Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules. As all the applicable percentage ratios are more than 0.1% but less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirement, under Chapter 14A of the Listing Rules.

Background

On 14 November 2016, the Company entered into the Renewal Master Lease Agreement with FH 1937 regarding the property leasing, sub-leasing and/or licensing arrangements by the Group from/to the FH 1937 Group during the period from 1 January 2017 to 31 December 2019. Details were set out in the Company's announcement dated 14 November 2016.

The Renewal Master Lease Agreement will expire on 31 December 2019. The Directors consider that it is in the interest of the Group to continue such property leasing, sub-leasing and/or licensing arrangements and to enter into the Second Renewal Master Lease Agreement with FH 1937 to provide a framework of the terms of the property leasing, sub-leasing and/or licensing arrangements by the Group from/to the FH 1937 Group for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

Date

21 November 2019

Parties

- (1) the Company
- (2) FH 1937

Transaction nature

Leasing or sub-leasing of properties and/or granting of licences for the right to use properties (or any part thereof) by the Group from/to the FH 1937 Group.

Term

Three years from 1 January 2020 to 31 December 2022.

Other major terms

The rental for the leasing of properties by any members of the Group to the FH 1937 Group or by any members of the FH 1937 Group to the Group will be negotiated on arm's length basis and with reference to the then prevailing market rates and shall be determined with reference to open market rents of comparable properties and at rates no less favourable to the Group than those available to any other independent third parties. The parties will also take into account a number of factors such as (i) price and the annual rental increases in the underlying lease agreements, (ii) various conditions of the premises including the location as well as the facilities and management services associated with the premises; and also will benchmark the market rental rates of other comparable properties so as to ensure that the terms offered by the FH 1937 Group and to the Group are fair, reasonable and competitive.

The rental or licence fee payable under each sub-lease or licence is based on a proportion of the rent and other expenses (such as electricity, water, heating and real estate taxes) payable by the lessee to the third party landlord under the relevant lease that reflects the proportion of the leased floor space occupied by the relevant members of the Group or the FH 1937 Group on a strict pass-through at cost basis.

All such transactions shall be on normal commercial terms and in the ordinary and usual course of business of the Group.

Historical figures

The aggregate rentals and license fees paid by the Group to the FH 1937 Group in respect of the leasing or licensing of properties under the Renewal Master Lease Agreement for the two years ended 31 December 2018 and the nine months ended 30 September 2019 are as follows:-

Year ended 31 December 2017	Year ended 31 December 2018	Nine months ended 30 September 2019
US\$25 million	US\$22 million	US\$14 million

The aggregate rentals and license fees paid by the FH 1937 Group to the Group to in respect of the leasing or licensing of properties under the Renewal Master Lease Agreement for the two years ended 31 December 2018 and the nine months ended 30 September 2019 are as follows:-

Year ended 31 December 2017	Year ended 31 December 2018	Nine months ended 30 September 2019
US\$1 million	US\$4 million	US\$3 million

Adoption of new accounting standard, HKFRS 16 “Leases” and the corresponding changes of Listing Rules

According to the accounting standard HKFRS 16, which was effective for the Group from 1 January 2019, the accounting treatment for leases that were previously classified as “operating leases” has changed. The Group is now required to recognize a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate in the year of entering into the lease / license agreement where the Group acts as a lessee.

Correspondingly, the Group will be required to set annual caps on the total value of right-of-use assets relating to leases to be entered into by the Group as a lessee in each year under the Second Renewal Master Lease Agreement.

Conversely, the accounting treatment for rental income, when the Group acts as a lessor, has remained unchanged after the adoption of HKFRS 16.

Due to the difference in accounting treatment when the Group acts as lessee and lessor, the Group has two separate sets of annual caps: (1) for right-of-use assets acquired and (2) for rental income and license fees received within each financial year.

Current Annual caps

The current annual caps in respect of the transactions contemplated under the Renewal Master Lease Agreement for the three financial years ending 31 December 2019 represented aggregate rentals and licence fees are:-

	Year	Annual Cap
Renewal Master Lease Agreement	2017	US\$70 million
	2018	US\$70 million
	2019	US\$70 million

New Annual Caps

The new annual caps when the Group acts as lessee:

The new annual caps in respect of the transactions contemplated under the Second Renewal Master Lease Agreement for the three financial years ending 31 December 2022 represent the total value of right-of-use assets relating to leases to be entered into by the Group in each year under the Second Renewal Master Lease Agreement: -

	Year	Annual Cap
Second Renewal Master Lease Agreement	2020	US\$43 million
	2021	US\$43 million
	2022	US\$43 million

Reference is made to the announcement of the Company dated 8 August 2019 in relation to the Master Property Agreement entered between FH 1937 and LF Logistics for the period from 8 August 2019 to 31 December 2021, whereby LF Logistics will lease from members of the FH 1937 Group certain office premises. The annual caps under the Master Property Agreement of US\$7.05 million for each of the years ending 2020 and 2021 are already included in the respective annual caps under the Second Renewal Master Lease Agreement.

The new annual caps when the Group acts as lessor:

The Group, when acting as lessor or licensor under the Second Renewal Master Lease Agreement, will continue to recognize the annual rental or license fee receivables from the FH 1937 Group for the purpose of determining the new annual caps.

	Year	Annual Cap
Second Renewal Master Lease Agreement	2020	US\$15 million
	2021	US\$15 million
	2022	US\$15 million

The annual caps under the Second Renewal Master Lease Agreement (for rentals or license fees paid by/to the Group) have been determined with reference to the aggregate rentals or license fees paid by/to the Group under the existing leases or licensing arrangements between the Group and the FH 1937 Group, and after taking into account the adjustment for future rental and the estimated demand for additional commercial and warehouse space to cope with the business needs of the Group.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group has been leasing, sub-leasing and/or licensing certain properties from/to the FH 1937 Group for the use as office premises, showroom and warehouses and will continue such leasing and/or licensing arrangements in accordance with the asset light strategy of the Group.

The Directors (including the Independent Non-executive Directors) consider that the Second Renewal Master Lease Agreement (together with the annual caps) have been entered into on normal commercial terms after arm's length negotiations between the parties, and in the ordinary and usual course of business of the Group, and the terms thereof (together with the annual caps) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, both being directors of FH 1937, are considered to have a material interest in the transactions contemplated under the Second Renewal Master Lease Agreement, and therefore abstained from voting on the board resolutions in respect of the Second Renewal Master Lease Agreement. 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 Second Renewal Master Lease Agreement.

LISTING RULES IMPLICATIONS

Since FH 1937 is a substantial shareholder of the Company, FH 1937 and its associates are connected persons of the Company. Accordingly, the transactions contemplated under the Second Renewal Master Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As all the applicable percentage ratios are more than 0.1% but less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but are 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 Group is focused on building the supply chain of the future and accelerating the speed in the supply chain through the development of its digital platform. Dr. William Fung Kwok Lun and a trust established for the benefit of the family members of Dr. Victor Fung Kwok King are the controlling shareholders of the Company.

FH 1937 is an investment holding company. The FH 1937 Group focuses on four core businesses, namely, trading, logistics, distribution and retailing. FH 1937 is a wholly-owned subsidiary of King Lun Holdings Limited, which is ultimately owned as to 50% by Dr. William Fung Kwok Lun and 50% by the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King.

DEFINITIONS

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

“associate(s)”, “controlling shareholder(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
“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)
“Group”	the Company and its subsidiaries
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 “Leases”, effective on 1 January 2019
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LF Logistics”	LF Logistics Holdings Limited (利豐物流控股有限公司), an exempted company incorporated in Bermuda on 2 January 2014 with limited liability and a subsidiary of the Company as of the date of this announcement
“Master Property Agreement”	the master property agreement entered into on 8 August 2019 by LF Logistics and FH 1937
“Renewal Master Lease Agreement”	the group master lease agreement entered into between the Company and FH 1937 on 14 November 2016 in relation to the property leasing, sub-leasing and/or licensing arrangements by the Group from/to the FH 1937 Group
“Second Renewal Master Lease Agreement”	the group master lease agreement entered into between the Company and FH 1937 on 21 November 2019 in relation to the property leasing, sub-leasing and/or licensing arrangements by the Group from/to the FH 1937 Group

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“US\$” US dollar(s), the lawful currency of the United States of America

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

Hong Kong, 21 November 2019

As at the date of this announcement, the Executive Directors of the Company are William Fung Kwok Lun (Group Chairman), Spencer Theodore Fung (Group Chief Executive Officer) and Joseph C. Phi; the Non-executive Directors are Victor Fung Kwok King (Honorary Chairman) and Marc Robert Compagnon; the Independent Non-executive Directors are Allan Wong Chi Yun, Martin Tang Yue Nien, Margaret Leung Ko May Yee, Chih Tin Cheung and John G. Rice.