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Incorporated in Bermuda with limited liability  
Stock Code: 494

## **DISCLOSEABLE TRANSACTION STRATEGIC DIVESTMENT OF ASIA CONSUMER AND HEALTHCARE DISTRIBUTION BUSINESS**

The Company had announced earlier that it was evaluating strategic alternatives with respect to its Asia consumer and healthcare distribution businesses which were acquired by the Company through the privatization of Integrated Distribution Services Group Limited in 2010. Since their acquisition, these distribution businesses have been operated as part of the Group's trading network, which is distinct from the Group's logistics network. As these distribution businesses are not part of the core sourcing and logistics business of the Group, the Directors determined it is in the best interests of the Company to divest these businesses.

The Company and the Seller (a wholly owned subsidiary of the Company) have entered into the Sale and Purchase Agreement with Dah Chong Hong Holdings Limited ("DCH") and Neosota Corp. (being a wholly owned subsidiary of DCH) to dispose of the Distribution Business for a cash consideration of US\$350 million (on a cash-free and debt-free basis and subject to closing adjustments).

The Directors are of the view that the divestment of the Distribution Business is part of the Group's strategic objective to allow the Group to continue to focus its resources on its core trading and logistics business. This strategic transaction also has the added advantage of reinforcing the Group's strong cash flow and solid balance sheet with increased flexibility in its capital structure.

### **LISTING RULES IMPLICATION**

As the highest applicable percentage ratio for the Company in respect of the Divestment is 5% or more but is less than 25%, the Divestment constitutes a discloseable transaction for the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

**Shareholders and potential investors of the Company should note that the Divestment is subject to a number of Conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.**

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The Company and the Seller (a wholly owned subsidiary of the Company) have entered into the Sale and Purchase Agreement with DCH and the Buyer (being a wholly owned subsidiary of DCH) to dispose of the Distribution Business for a cash consideration of US\$350 million (on a cash-free and debt-free basis and subject to closing adjustments).

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The Directors are of the view that the terms of the Divestment are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **THE SALE AND PURCHASE AGREEMENT**

### **Date**

3 May 2016

### **Parties**

- (i) the Company, as guarantor of the Seller;
- (ii) the Seller, as seller of the Target Shares;
- (iii) DCH, as guarantor of the Buyer; and
- (iv) the Buyer, as buyer of the Target Shares.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, DCH, the Buyer and their respective ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

## Subject matter

The Target Shares, representing the entire issued share capital of the Target Company.

Upon Completion, the Target Company will cease to be a subsidiary of the Seller and will become a wholly owned subsidiary of the Buyer.

## Consideration

The Consideration under the Sale and Purchase Agreement shall be US\$350 million, subject to customary closing adjustments by:

- (a) adding the amount of cash of the Target Group as at the Completion Date;
- (b) deducting the amount of indebtedness of the Target Group as at the Completion Date; and
- (c) adjusting for the difference between the amounts of the actual working capital and the target working capital of the Target Group as at the Completion Date.

The Consideration was determined after arm's length negotiations between the Seller and the Buyer with reference to the Target Group's historical performance and future prospects as well as comparable trading and transaction multiples.

## Payment

The Consideration shall be payable in cash according to the following schedule:

- (a) *initial payment*: at Completion, the Buyer shall pay to the Seller an amount equal to the sum of (i) US\$350 million and (ii) an amount representing the cash-free, debt-free and working capital adjustments estimated in accordance with provisions of the Sale and Purchase Agreement as mentioned above (the "**Initial Payment**"); and
- (b) *adjustment payment*: within five Business Days after agreement or determination of the Completion Accounts, the Buyer shall pay to the Seller any amount by which the Consideration (as determined according to the Completion Accounts) exceeds the Initial Payment, or the Seller shall pay to the Buyer any amount by which the Consideration (as determined according to the Completion Accounts) is less than the Initial Payment.

## Conditions

Completion is subject to the following Conditions being satisfied (or waived) on or before the Longstop Date:

- (a) the completion of the Restructuring; and

- (b) the Sale and Purchase Agreement and other transaction documents to be entered into pursuant to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder shall have been approved by the shareholders of DCH in accordance with the requirements of the Listing Rules.

### **Completion**

Completion shall take place on the Completion Date.

### **Guarantee**

The Company has agreed to guarantee the performance of the Seller's obligations under the Sale and Purchase Agreement and DCH has agreed to guarantee the performance of the Buyer's obligations under the Sale and Purchase Agreement.

### **Non-compete**

The Seller has undertaken with the Buyer (for itself as agent for the Target Group) that it will not, and will procure no other member of the Group (excluding the Target Group) will, without the written consent of the Buyer, for a period of three years immediately following the Completion Date, engage in the distribution of fast moving consumer products and healthcare products in Brunei, Hong Kong, Indonesia, Japan, Macau, Malaysia, Myanmar, the Philippines, the PRC, Singapore, Taiwan and Thailand, or employ or solicit or endeavour to entice away from the Target Group any of its material employees.

### **Restructuring**

Prior to the entering into of the Sale and Purchase Agreement, the Distribution Business has been conducted by certain subsidiaries of the Company. Pursuant to the Sale and Purchase Agreement, the Seller has agreed to procure a pre-Completion Restructuring of the Distribution Business, which shall involve an internal transfer of assets, liabilities and shares of such subsidiaries to create the Target Group. The Restructuring is expected to complete by Completion. To the extent legal transfers of certain subsidiaries or businesses to the Target Group is not perfected and pending such perfection, Completion will still proceed on the basis that the economics of these subsidiaries or businesses will be retained by Target Group as from Completion.

### **INFORMATION ON TARGET GROUP**

The Target Group is principally engaged in distribution of consumer and healthcare products across Asia. The Target Group has been operating in geographical areas including the PRC, Hong Kong, Macau, Taiwan, Thailand, Malaysia, Singapore, Philippines, Indonesia and Brunei.

The unaudited combined net assets of the Target Group as at 31 December 2015 and as at 31 December 2014 were approximately US\$321.4 million and US\$287.4 million respectively. The unaudited core operating profit of the Target Group for the years ended 31 December 2015 and 31 December 2014 were approximately US\$16.1 million and US\$24.8 million. The unaudited combined net profits (before and after taxation) of the Target Group for the year ended 31 December 2015 were approximately US\$13.0 million and US\$11.2 million respectively, and the unaudited combined net profits (before and after taxation) of the Target Group for the year ended 31 December 2014 were approximately US\$23.3 million and US\$20.3 million respectively.

## **FINANCIAL EFFECT OF THE DIVESTMENT AND USE OF PROCEEDS**

Based on the difference between the Consideration receivable from the Divestment of US\$350 million (subject to working capital adjustments on a cash-free, debt-free basis) and the unaudited combined net assets of the Target Group of approximately US\$321.4 million as at 31 December 2015, and after taking into account the estimated transaction costs in connection with the Divestment, the Company estimates that the net potential gain on the Divestment will be approximately US\$10 million. The actual gain to be recognised by the Company can only be ascertained when the Completion Accounts and the audit of the Company for the year ending 31 December 2016 are finalised and the restructuring and transaction costs in connection with the Divestment are determined upon Completion, and therefore may vary from the amount mentioned above.

Upon Completion, the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Group will no longer be consolidated into the consolidated financial statements of the Group.

The proceeds from the Divestment are intended to be used by the Group for working capital and to further improve and strengthen its capital structure.

## **INFORMATION ON THE GROUP**

The Group is recognised as the world's leader in consumer goods design, development, sourcing and logistics. It specialises in responsibly managing supply chains of high-volume, time-sensitive goods for leading retailers and brands worldwide. The Seller is an investment holding company and a wholly-owned subsidiary of the Company.

## **INFORMATION ON DCH GROUP**

DCH Group is an integrated trading and distribution company operating in Asia with a focus on Greater China, supported by an extensive logistics network. DCH is a leading distributor and dealer of motor vehicles in Greater China, and it also provides a full range of motor-related services. DCH's consumer business distributes food, personal care and lifestyle products. Established in 1949 and listed on the Stock Exchange, DCH has business operations in Hong Kong, the PRC, Taiwan, Macau, Singapore, Japan and Myanmar. The Buyer is an investment holding company.

## LISTING RULES IMPLICATION

As the highest applicable percentage ratio for the Company in respect of the Divestment is 5% or more but is less than 25%, the Divestment constitutes a discloseable transaction for the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

**Shareholders and potential investors of the Company should note that the Divestment is subject to a number of Conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

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

<b>“Business Day”</b>	a day other than a Saturday, Sunday or public holiday in Hong Kong when banks in Hong Kong are open for business
<b>“Buyer”</b>	Neosota Corp., a company incorporated in the British Virgin Islands with limited liability and is wholly owned by DCH
<b>“connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”</b>	each has the meaning ascribed to it under the Listing Rules
<b>“Company”</b>	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 494)
<b>“Completion”</b>	completion of the sale and purchase of the Target Shares in accordance with the terms of the Sale and Purchase Agreement
<b>“Completion Accounts”</b>	combined financial statements of the Target Group as at the Completion Date which shall be prepared in accordance with the terms of the Sale and Purchase Agreement
<b>“Completion Date”</b>	30 June 2016 or (if the Conditions have not been satisfied (or waived) on or before such date) the fifth Business Day after all the Conditions having been satisfied (or waived) or any other date agreed in writing by the parties to the Sale and Purchase Agreement

<b>“Conditions”</b>	the Conditions to Completion, as more particularly described under the paragraph “Conditions” in this announcement
<b>“Consideration”</b>	the consideration payable by the Buyer to the Seller pursuant to the Sale and Purchase Agreement, as more particularly described under the paragraph “Consideration” in this announcement
<b>“DCH”</b>	Dah Chong Hong Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 1828)
<b>“DCH Group”</b>	DCH and its subsidiaries
<b>“Directors”</b>	the directors of the Company
<b>“Divestment”</b>	the divestment of the Target Shares and the transactions contemplated under the Sale and Purchase Agreement
<b>“Distribution Business”</b>	the business carried on by the Target Group as at the date of the Sale and Purchase Agreement including the distribution of fast moving consumer products and healthcare products and the contract manufacturing of food and beverage products
<b>“Group”</b>	the Company and its subsidiaries
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Listing Rules”</b>	The Rules Governing the Listing of Securities on the Stock Exchange
<b>“Longstop Date”</b>	31 December 2016 or such later date as may be agreed in writing by the Buyer and the Seller
<b>“PRC”</b>	the People’s Republic of China (excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
<b>“Restructuring”</b>	the pre-Completion restructuring of the Distribution Business as more particularly described under the paragraph “Restructuring” in this announcement

<b>“Sale and Purchase Agreement”</b>	the sale and purchase agreement dated 3 May 2016 entered into between the Seller, the Company, DCH and the Buyer in relation to the sale and purchase of the Target Shares
<b>“Seller”</b>	LF Distribution Limited, a company incorporated in Bermuda with limited liability and is wholly owned by the Company
<b>“Shareholder(s)”</b>	the shareholder(s) of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Target Company”</b>	LF Distribution Holding Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by the Seller prior to Completion
<b>“Target Group”</b>	the Target Company and its subsidiaries after the completion of the Restructuring and as at Completion
<b>“Target Shares”</b>	such number of shares of the Target Company which represents the entire issued share capital of the Target Company
<b>“US\$”</b>	United States Dollar, the lawful currency of the United States of America

By Order of the Board  
William FUNG Kwok Lun  
Group Chairman, Li & Fung Limited

Hong Kong, 3 May 2016

Websites: [www.lifung.com](http://www.lifung.com)  
[www.irasia.com/listco/hk/lifung](http://www.irasia.com/listco/hk/lifung)

*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.*