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Incorporated in Bermuda with limited liability
Stock Code: 494

**(1) COMPLETION OF THE STRATEGIC DIVESTMENT
OF PRODUCT VERTICALS BUSINESS**

(2) CONTINUING CONNECTED TRANSACTIONS

(3) SPECIAL DIVIDEND

The Board is pleased to announce that Closing of the Strategic Divestment took place on 3 April 2018 in accordance with the terms of the Sale and Purchase Agreement.

In addition, on 3 April 2018, the Company entered into the following Continuing Connected Transactions with the Target Holding Company: (1) the Services Agreement, (2) the Master Property Agreement and (3) the Ancillary Sourcing, Logistics and Trading Services Agreement.

FH 1937 is a substantial shareholder of the Company and, at Closing, indirectly owns 45% of the Target Holding Company's shares. Since FH 1937 is a substantial shareholder of the Company, FH 1937 and its associates (including the Target Holding Company) are connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules. As the relevant applicable percentage ratios are more than 0.1% but less than 5%, the Continuing Connected Transactions will be subject to the reporting, annual review and announcement requirements, but will be exempt from the independent shareholders' approval requirement, under Chapter 14A of the Listing Rules.

Reference is made to the announcement dated 14 December 2017 and the circular dated 9 January 2018 of the Company in relation to, among other things, the Strategic Divestment of the Target Business and the Proposed Continuing Connected Transactions contemplated under the Sale and Purchase Agreement entered into between the Purchaser and the Company on 14 December 2017. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

1. COMPLETION OF STRATEGIC DIVESTMENT OF THE TARGET BUSINESS

The Board is pleased to announce that all of the conditions precedents as set out under the sub-section headed "Letter from the Board – 3. The Sale and Purchase Agreement – Conditions" on page 17 of the Circular were satisfied and Closing took place on 3 April 2018 in accordance with the terms of the Sale and Purchase Agreement.

The initial Consideration of US\$1,100 million was paid in cash by the Purchaser to the Company, subject to adjustments for working capital and estimated net cash at Closing. The Company and the Purchaser have agreed to adjust the initial Consideration payable at Closing to take account of estimated net cash retained in the Target Business to better reflect the level of overall adjustments at the time of Closing. The initial Consideration will be adjusted following Closing to take account of cash, indebtedness and working capital as at the closing statement date, being 31 March 2018.

2. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

On 3 April 2018, to ensure that the post-Closing Reorganisation can complete in an efficient and effective manner and to ensure that neither the LF Group's business nor the Target Group's business is unduly affected as a result of the Strategic Divestment and the Reorganisation, the LF Group through the Company and the Target Group through the Target Holding Company entered into the following Continuing Connected Transactions:

- ***Services Agreement:*** The Services Agreement allows the Target Group to continue to be supplied with certain office administrative services that it currently receives from the LF Group. The Target Group has been receiving certain IT, human resources, finance and accounting, corporate services and global transaction services and will continue to receive such services for certain members of the Target Group.
- ***Master Property Agreement:*** The Master Property Agreement allows members of the Target Group and members of the LF Group to sub-lease and license office, showroom and warehouse premises to and from one another, where the underlying leases have been entered into by the other party. The LF Group has been occupying certain properties that are leased by the Target Group for use as office premises, showrooms and warehouses and will continue such occupancy in the form of sub-leases and licenses in accordance with the asset light strategy of the LF Group.
- ***Ancillary Sourcing, Logistics and Trading Services Agreement:*** The Ancillary Sourcing, Logistics and Trading Services Agreement allows: (i) the LF Group to continue to provide Sourcing Services to the Target Group; (ii) the LF Group to provide Logistics Services to the Target Group; and (iii) the Target Group to provide Trading Services to the LF Group. It is anticipated that the volume of transactions under the Ancillary Sourcing, Logistics and Trading Services Agreement relating to Sourcing Services will not result in the Target Group becoming a large customer of the LF Group.

3. THE CONTINUING CONNECTED TRANSACTIONS

(a) Services Agreement

Date

3 April 2018

Parties

- (i) the Company
- (ii) the Target Holding Company

Services to be provided

The Services Agreement governs the terms on which members of the LF Group will provide certain back office functions related to IT, human resources, finance and accounting, corporate services, and global transaction services to members of the Target Group after Closing.

Service fee

The global transaction services are charged as a unit price per transaction. The services fee payable for the other categories of service are based on requisite proxies for the Target Group's usage of each category of service, such as headcount for the human resources services and corporate services, numbers of computing devices under maintenance for the IT services, and relative gross profit of the LF Group and the Purchaser's group for the shared finance and accounting services. Other occasional services will be charged on a per-project basis, to be agreed on a case-by-case basis.

Term

The term commences on 3 April 2018 and will expire on 31 December 2019, unless renewed (subject to the mutual agreement of the parties).

Historical transaction amounts

Since the Services Agreement is a new transaction with effect from Closing, there are no historical amounts for this transaction.

Annual caps and basis of determination

In accordance with Rule 14A.53 of the Listing Rules, the annual caps for the maximum aggregate amount payable by the Target Group for the services under the Services Agreement for 2018 and 2019 are US\$35 million and US\$45 million, respectively. These annual caps have been determined based on a pre-estimate of the Target Business's usage of the services over the period to 31 December 2019.

(b) Master Property Agreement***Date***

3 April 2018

Parties

- (i) the Company
- (ii) the Target Holding Company

Services to be provided

The Master Property Agreement governs the terms on which members of the Target Group and members of the LF Group sub-lease and license office, showroom and warehouse premises to and from one another, where the underlying leases have been entered into by the other party.

Rental or licence fee

The rental or licence fee payable under each sub-lease or license is based on a proportion of the monthly lease payment and other expenses (such as electricity, water, gas, heating and real estate taxes) payable by the lessee to the third party landlord under the relevant lease that reflects the square footage occupied by the relevant members of the LF Group or the Target Group on a “at cost” basis.

Term

The term commences on 3 April 2018 and will expire on 31 December 2020.

Historical transaction amounts

Since the Master Property Agreement and the sub-leases and licences under it are new transactions with effect from Closing, there are no historical amounts for these transactions.

Annual caps and basis of determination

In accordance with Rule 14A.53 of the Listing Rules, the annual caps for the maximum aggregate amount: (i) payable by the Target Group; and (ii) payable to the Target Group for the sub-leases and licences for 2018, 2019 and 2020 are US\$15 million, US\$20 million and US\$25 million, respectively. These annual caps have been estimated based on: (i) the estimated incremental annual increases in the underlying lease agreements; and (ii) the estimated increases in expenses as a result of inflation, increased business activity and an increase in the value of the properties.

(c) **Ancillary Sourcing, Logistics and Trading Services Agreement**

Date

3 April 2018

Parties

- (i) the Company
- (ii) the Target Holding Company

Services to be provided and service fee

Sourcing Services

The LF Group intends to provide agency-based sourcing and supply chain management services (*Sourcing Services*) to members of the Target Group on market rates.

Logistics Services

The LF Group intends to provide logistics services (*Logistics Services*) to members of the Target Group for the term of the Ancillary Sourcing, Logistics and Trading Services Agreement. The Logistics Services will include:

- (i) in-country logistics services such as distribution center management, order management and local transportation; and
- (ii) global freight management such as full services international freight solutions.

The commission payable by the Target Group to the LF Group for the Logistics Services shall be at prevailing market rates comparable to services provided by other similar independent third party providers, with reference to:

- (i) the standard price list of the LF Group for providing quotations to third parties for the Logistics Services;
- (ii) the type and volume of goods and/or cargoes transported;
- (iii) the distance of the delivery point; and
- (iv) anticipated costs including labour and fuel.

Trading Services

The Target Group intends to provide principal trading services (*Trading Services*) under its product verticals to members of the LF Group for the term of the Ancillary Sourcing, Logistics and Trading Services Agreement. The Trading Services shall include design and sale of products under the Target Group's product vertical

businesses to customers of the LF Group. The price payable for the products by the LF Group to the Target Group for the Trading Services shall be determined on a transaction-by-transaction basis among the respective parties from time to time on arm's length basis and comparable to the prevailing market rates, with reference to:

- (i) the amount, type, quality, design and availability of products sold to customers of the LF Group;
- (ii) the costs to be incurred by the Target Group for the provision of the Trading Services; and
- (iii) comparable market prices for the provision of services similar to the Trading Services provided by other similar independent third party providers.

Term

The term commences on 3 April 2018 and will expire on 31 December 2020.

Historical transaction amounts

On an intra-company basis, the historical transaction amounts for the years ended 31 December 2015 and 2016 were US\$0.1 million and US\$0.3 million for Sourcing Services, US\$4.3 million and US\$3.6 million for Logistics Services and US\$23.3 million and US\$23.4 million for sales to the Company by the Target Business.

Annual caps and basis of determination

In accordance with Rule 14A.53 of the Listing Rules, the annual caps for the maximum aggregate commission payable for the services intended to be provided under the Ancillary Sourcing, Logistics and Trading Services Agreement are US\$40 million, US\$45 million and US\$50 million for 2018, 2019 and 2020, respectively.

These annual caps include both the commissions: (i) payable to the LF Group for the provision of Sourcing Services and the Logistics Services; and (ii) payable to the Target Group for the provision of Trading Services, and have been determined with reference to:

- (i) the historical commissions or consideration paid for such services during the two years ended 31 December 2015 and 2016;
- (ii) the amount of consideration paid to independent third party providers of similar services;
- (iii) the amount and type of goods which are sourced through the Group; and
- (iv) estimated future growth in volume requirements of the service recipients over the term of the Ancillary Sourcing, Logistics and Trading Services Agreement.

4. INFORMATION ON THE GROUP

The Company is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since July 1992. 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.

5. INFORMATION ON THE TARGET HOLDING COMPANY

The Target Holding Company is incorporated in the British Virgin Islands with limited liability and following Closing, is a wholly owned subsidiary of the Purchaser. The Target Holding Company is owned indirectly by USEL, FH 1937 and FIL.

The Target Holding Company is 55% owned indirectly by FH 1937 (a substantial shareholder of the Company) and FIL, both of which are indirectly owned by the Family. FH 1937 is an investment holding company and focuses on four core businesses, namely, trading, logistics, distribution and retailing. FIL is the private investment arm of the Family.

The Target Holding Company is 45% owned indirectly by USEL, an investment holding company incorporated in the British Virgin Islands and wholly-owned by Hony Capital.

Hony Capital, founded in 2003 and sponsored by Legend Holdings, specialises in buyout investment. Partnering with the world's leading investors, it focuses on the development of China's real economy with "Value creation, Price Realisation" as its investment philosophy. Hony Capital currently has US\$10 billion under management, with investors from China and the world's leading investment institutions. Hony Capital puts China as its top market, with investments in over 100 companies in areas of pharmaceutical and healthcare, media and entertainment, consumer products, food and beverage, as well as machinery and equipment manufacturing.

6. LISTING RULES IMPLICATIONS

FH 1937 is a substantial shareholder of the Company and, at Closing, indirectly owns 45% of the Target Holding Company's shares.

Since FH 1937 is a substantial shareholder of the Company, FH 1937 and its associates (including the Target Holding Company) are connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules. As the relevant applicable percentage ratios are more than 0.1% but less than 5%, the Continuing Connected Transactions will be subject to the reporting, annual review and announcement requirements, but will be exempt from the independent shareholders' approval requirement, under Chapter 14A of the Listing Rules.

Each of Victor Fung Kwok King, William Fung Kwok Lun and Spencer Theodore Fung is considered to have a material interest in the Continuing Connected Transactions by virtue of his interest in the Purchaser and the Target Holding Company, and therefore has abstained from voting on the board resolutions in respect of the Continuing Connected Transactions.

Based on the reasons set out in this announcement and having considered all of the relevant factors, the Directors (including the Independent Non-executive Directors) consider that the Continuing Connected Transactions, despite the fact that the Services Agreement and Master Property Agreement are not in the ordinary and usual course of business of the Group, are conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the terms thereof were arrived at after arm's length negotiations between the Company and the Purchaser.

7. SPECIAL DIVIDEND

The Board declared on 22 March 2018 that a Special Dividend of 47.6 HK cents per share absorbing approximately US\$520 million, payable out of part of the proceeds from the Strategic Divestment, be distributed to the Shareholders subject to Closing. As Closing took place on 3 April 2018, the Special Dividend will be paid at the same time when the final dividend for the year ended 31 December 2017 is paid.

The relevant timetable for determining shareholder's entitlement to the Special Dividend is as follows:

Latest time to lodge transfer documents with share registrar:	4:30 p.m., 18 May 2018
Book closure date:	21 to 23 May 2018
Record date:	23 May 2018
Expected despatch date of dividend warrants:	29 May 2018

The register of members of the Company will be closed from Monday, 21 May 2018 to Wednesday, 23 May 2018 (both days inclusive), during which no transfer of shares in the Company will be effected. In order to qualify for the Special Dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 18 May 2018.

8. DEFINITIONS

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

“Circular”	the circular of the Company dated 9 January 2018 in respect of the Strategic Divestment and the transactions contemplated thereunder, the Proposed Continuing Connected Transactions and the Special Dividend
“Continuing Connected Transactions”	the transactions under the Services Agreement, the Master Property Agreement and the Ancillary Sourcing, Logistics and Trading Services Agreement

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

Hong Kong, 3 April 2018

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), Marc Robert Compagnon and Joseph C. Phi; Non-executive Director is Victor Fung Kwok King (Honorary Chairman); 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.