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LI & FUNG LIMITED

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 14 November 2016, the Company entered into the Renewal 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.

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 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 6 December 2013, the Company entered into the Existing Master Lease Agreement with FH 1937 regarding the leasing of properties by the Group from FH 1937 Group during the period from 1 January 2014 to 31 December 2016. Details were set out in the announcement of the Company dated 6 December 2013.

Following the spin-off and separate listing of Global Brands on the Stock Exchange in 2014, Global Brands has become an associate of FH 1937. Accordingly, the Company and Global Brands entered into the Existing Master Property Agreement to govern the sub-leases and licences of office, showroom and warehouse premises to and from one another during the period from 9 July 2014 to 31 December 2016. Details were set out in the announcement of the Company dated 21 August 2014.

Both the Existing Master Lease Agreement and Existing Master Property Agreement will expire on 31 December 2016. The Directors consider that it is in the interest of the Group to continue such leasing, sub-leasing and licensing arrangements and to enter into the Renewal 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, including Global Brands Group, for a term of three years commencing from 1 January 2017 and ending on 31 December 2019.

Date

14 November 2016

Parties

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

Transaction nature

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

Term

Three years from 1 January 2017 to 31 December 2019.

Other major terms

The rental for the leasing of properties by any members of the Group to FH 1937 Group or by any members of 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 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 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 paid by the Group to FH 1937 Group in respect of the leasing of properties under the Existing Master Lease Agreement for the two years ended 31 December 2015 and the nine months ended 30 September 2016 are as follows:-

Year ended 31 December 2014	Year ended 31 December 2015	Nine months ended 30 September 2016
US\$25 million	US\$26 million	US\$20 million

The aggregate rentals and licence fees paid to and from one another for the sub-leases and licences under the Existing Master Property Agreement between the Group and Global Brands Group for the two years ended 31 December 2015 and the nine months ended 30 September 2016 are as follows:-

Year ended 31 December 2014	Year ended 31 December 2015	Nine months ended 30 September 2016
US\$5 million	US\$6 million	US\$3 million

The above aggregate rentals and licence fees are within the annual caps for the Existing Master Lease Agreement and Existing Master Property Agreement as disclosed in the Company's announcements dated 6 December 2013 and 21 August 2014 respectively.

Current and New Annual caps

The annual caps in respect of the transactions contemplated under the Existing Master Lease Agreement and the Existing Master Property Agreement for the three financial years ending 31 December 2016 and under the Renewal Master Lease Agreement for the three financial years ending 31 December 2019 are set out below:-

	Year	Annual Cap
Existing Master Lease Agreement with FH 1937	2014	US\$45 million
	2015	US\$50 million
	2016	US\$55 million
Existing Master Property Agreement with Global Brands	2014	US\$12 million
	2015	US\$14 million
	2016	US\$16 million
Renewal Master Lease Agreement with FH 1937 (including Global Brands Group)	2017	US\$70 million
	2018	US\$70 million
	2019	US\$70 million

The annual caps under the Renewal Master Lease Agreement are determined with reference to the aggregate rentals or license fees paid from/to FH 1937 Group under the existing leases or licensing arrangements between the Group and FH 1937 Group (including Global Brands 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 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 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 Renewal Master Lease Agreement, and therefore abstained from voting on the board resolutions in respect of the Renewal Master Lease Agreement. Mr. Spencer Theodore Fung, being the son of Dr. Victor Fung Kwok King, and Mr. Paul Edward Selway-Swift, being an independent non-executive director of Global Brands, also abstained from voting on the board resolutions in respect of the 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 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.

FH 1937 is an investment holding company. FH 1937 Group focuses on four core businesses, namely, trading, logistics, distribution and retailing.

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
“Existing Master Lease Agreement”	the master lease agreement entered into between the Company and FH 1937 on 6 December 2013 in relation to leasing of properties by the Group from FH 1937 Group
“Existing Master Property Agreement”	the master property agreement entered into between the Company and Global Brands on 24 June 2014 in relation to the sub-leases and licences of properties to and from the members of the Global Brands Group and members of the Group
“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 Global Brands Group
“Global Brands”	Global Brands Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Global Brands Group”	Global Brands and its subsidiaries
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“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 properties leasing or sub-leasing and/or licensing arrangements by the Group from/to 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, 14 November 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.