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LI & FUNG LIMITED

Incorporated in Bermuda with limited liability

Stock Code: 494

(1) MAJOR AND CONNECTED TRANSACTION STRATEGIC DIVESTMENT OF PRODUCT VERTICALS BUSINESS

(2) PROPOSED CONDITIONAL SPECIAL DIVIDEND

(3) PROPOSED CONTINUING CONNECTED TRANSACTIONS PROVISION OF SUPPORT SERVICES ANCILLARY SOURCING, LOGISTICS AND TRADING SERVICES ARRANGEMENTS

(4) APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

STRATEGIC DIVESTMENT OF THE TARGET BUSINESS

The Board announces that after trading hours on 14 December 2017, the Company entered into a Sale and Purchase Agreement with the Purchaser, an entity which will be owned by USEL (an investment holding company wholly-owned by Hony Capital, an independent third party), FH 1937 (a substantial shareholder of the Company) and FIL, to divest the Target Business for a total cash Consideration of US$1,100 million (HK$8,536 million) on a cash free/debt free basis, subject to Closing adjustments (the "Strategic Divestment").

The Target Business comprises the furniture, beauty and sweaters product verticals under the Products Segment. Following Closing, the Company will continue to own and operate the core Services Segment, which includes Supply Chain Solutions and the Logistics Business, and the Onshore Wholesale Business under the Products Segment.

The Group's Three-Year Plan is to create the supply chain of the future to help its customers navigate the digital economy that enables the Company to deliver long-term shareholder value as it transforms itself into a digital company. The Company is on track to deliver a digital platform that connects its suppliers, vendors, customers and other partners with end-to-end visibility and data analytics.

The Strategic Divestment will allow the Company to set the foundation for a more simplified organisation with greater agility and focus on its core competencies and its senior management team to focus resources on executing its Three-Year Plan. The Target Group's growth strategy in each of the product categories necessitates further expansion upstream and downstream, requiring capital investment and management attention, which the Company believes is best achieved outside the Company and its present strategic direction.

The Strategic Divestment is at an attractive valuation as the Target Group's businesses are still under margin pressure with declining profitability due to significant changes in market conditions. The Strategic Divestment has the added advantage of allowing shareholders to realise immediate cash value through the Special Dividend of approximately US$520 million (HK$4,035 million) or dividends per Share of US$0.0614 (HK$0.476) payable out of the proceeds from the Strategic Divestment, which would be equivalent to more than double the total annual dividend of HK$0.23 per share paid in 2016. The remaining proceeds of US$580 million will further strengthen the Company's capital structure with enhanced financial flexibility to build the supply chain of the future.

As a result of the Strategic Divestment, the Group is expected to recognise a loss of approximately US$610 million attributable to discontinued operations, which includes write-down of goodwill attributable to the Target Group's acquisitions in prior years. In respect of these acquisitions, the Group has recognised contingent consideration write-back of US$282 million as non-operating income in prior years. Should the above write-back be taken into overall consideration, the loss from the Strategic Divestment would have been US$328 million. It is expected that the estimated loss from the Strategic Divestment would trigger the reporting by the Group of a total net loss attributable to shareholders in 2017. Excluding such loss, the Group's net profit attributable to shareholders from continued operations remains solid. In addition to this, at the time of Closing, the Strategic Divestment will also trigger the realisation of prior period foreign exchange non-cash translation losses in the Company's equity account, which are approximately US$106 million. The above accounting losses have no impact on the Company's cash flow, nor its future operational and financial performance.

The Strategic Divestment is a continuation of the Company's strategy to simplify its business following the spin-off of Global Brands Group Holding Limited in 2014 and the divestment of the consumer and healthcare distribution business of LF Asia in 2016. The Company will continue to focus on developing its core competencies and building the supply chain of the future.

The Board also announces that the Company will, on or before the Closing Date, enter into the Proposed Continuing Connected Transactions to deal with ongoing transactions after Closing between the Target Group and the LF Group.

PROPOSED CONDITIONAL SPECIAL DIVIDEND

The Board proposes that a special dividend of approximately US$520 million (HK$4,035 million) or dividends per Share of approximately US$0.0614 (HK$0.476) (the "Special Dividend"), payable out of part of the proceeds from the Strategic Divestment, be distributed as soon as practicable and in any event within two months of Closing, to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. The Special Dividend would be conditional upon Closing of the Strategic Divestment.

Further details of the Special Dividend to be declared and payable, the closure date of the register of members of the Company, the record date and the pay-out date for the Special Dividend will be set out in the circular to be despatched to the Shareholders containing the notice convening the SGM, as more particularly described under the paragraph "14. SGM and Despatch of Circular" of this announcement.

IMPLICATIONS UNDER THE LISTING RULES

With respect to the Strategic Divestment, as one or more of the applicable percentage ratios for the Strategic Divestment are more than 25% but less than 75%, the Strategic Divestment constitutes a major transaction for the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

FH 1937 is a substantial shareholder of the Company and, at Closing, will own 45% of the Purchaser's shares.

Since FH 1937 is a substantial shareholder of the Company, FH 1937 and members of the FH 1937 Group are connected persons of the Company. Accordingly, the Strategic Divestment will constitute a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A of the Listing Rules.

The Proposed Continuing Connected Transactions will also 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 Proposed 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.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, an Independent Board Committee comprising all of the Independent Non-executive Directors has been established to advise the Independent Shareholders as to the Strategic Divestment.

The Company has appointed, and the Independent Board Committee has approved the appointment of, BNP Paribas Securities (Asia) Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters.

EXCLUSIVE FINANCIAL ADVISER

The Company has appointed Citigroup Global Markets Asia Limited as the Exclusive Financial Adviser in relation to the Strategic Divestment.

DESPATCH OF CIRCULAR

The SGM will be convened to consider and, if thought fit, approve, among other matters, the Strategic Divestment.

A circular containing, among other information: (i) further details of the Strategic Divestment, the Special Dividend and the Proposed Continuing Connected Transactions; (ii) the advice and recommendations of the Independent Board Committee; (iii) the advice and recommendations of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) notice of the SGM, are expected to be despatched to the Shareholders on or before 9 January 2018 in accordance with the requirements of the Listing Rules.

WARNING

Shareholders and potential investors of the Company should note that (i) the Strategic Divestment; and (ii) the Special Dividend may or may not proceed, as they are conditional upon each other and subject to a number of other 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.

(1) INTRODUCTION

The Board announces that after trading hours on 14 December 2017, the Company entered into a Sale and Purchase Agreement with the Purchaser, an entity which will be owned by USEL (an investment holding company wholly-owned by Hony Capital, an independent third party), FH 1937 (a substantial shareholder of the Company) and FIL, to divest the Target Business for a total cash Consideration of US$1,100 million (HK$8,536 million) on a cash free/debt free basis, subject to Closing adjustments (the "Strategic Divestment").

The Target Business comprises the furniture, beauty and sweaters product verticals under the Products Segment.

Following Closing, the Company will continue to own and operate the core Services Segment, which includes Supply Chain Solutions and the Logistics Business, and the Onshore Wholesale Business under the Products Segment.

The Board also announces that the Company will, on or before the Closing Date, enter into the Proposed Continuing Connected Transactions to deal with ongoing transactions between the Target Group and the LF Group following Closing.

(2) BACKGROUND TO THE STRATEGIC DIVESTMENT

A. Three-Year Plan (2017-2019)

The Group's Three-Year Plan is to create the supply chain of the future to help its customers navigate the digital economy that enables the Company to deliver long-term shareholder value as it transforms itself into a digital company.

The Strategic Divestment will allow the Company to set the foundation for a more simplified organisation with greater agility and focus on its core competencies and its senior management team to focus resources on executing its Three-Year Plan.

The Strategic Divestment is a continuation of the Company's strategy to simplify its business following the spin-off of Global Brands Group Holding Limited in 2014 and the divestment of the consumer and healthcare distribution business of LF Asia in 2016. The Company's senior management will continue to focus its resources in creating the supply chain of the future to enable the Company to deliver long-term shareholder value as it transforms into a digital company.

At the beginning of this Three-Year Plan, the Products Segment was created to consolidate some of the trading businesses of Group in specific product areas of furniture, sweaters and beauty and the Onshore Wholesale Business. As the Group continue to transform itself to become a digital company, the Group has gained significant momentum and traction with customers, creating an end-to-end digitalised platform within its Services Segment covering both sourcing and logistics, especially with its speed model, virtual design, and e-logistics business. On the other hand, the Target Group's growth strategy in each of the product categories necessitates further expansion upstream and downstream, requiring capital investment and management attention, which the Company believes is achieved outside the Company and its present strategic direction.

B. The Company's existing businesses under the Three-Year Plan

Prior to the Strategic Divestment, we operated two distinct businesses, the Services Segment and the Products Segment. The Services Segment includes Supply Chain Solutions and Logistics Business. The Products Segment includes furniture, beauty, sweaters and the Onshore Wholesale Business.

Following Closing, the Company will continue to own and operate the core Services Segment, which includes Supply Chain Solutions and the Logistics Business, and the Onshore Wholesale Business under the Products Segment.

The Target Group

The Target Group incorporates the majority of the Company's principal-based trading businesses from the Products Segment. The Company sells as a principal to its customers' in-house buying offices and are responsible for services ranging from product design and development to production, quality control and local logistics. The terms of each order are agreed on a per-transaction basis and a margin is earned. Each of the three product verticals is operated by a distinct management team with autonomy and flexibility in pursuing their product strategies.

The three product verticals (which are subject to the Strategic Divestment) are:

- furniture, primarily focusing on furniture and home furnishing;
- sweaters, primarily focusing on sweaters and knitwear; and
- beauty, primarily focusing on beauty products.

The Company's businesses after the Strategic Divestment

Following completion of the Strategic Divestment, the Company will focus on:

- Supply Chain Solutions, offering end-to-end supply chain services typically on a fee basis, from product design and development to raw material and factory sourcing as well as manufacturing control. These services are all under the LF platform through which customers and vendors can access the suite of value-added services;
- Logistics Business, providing Asia-focused in-country logistics (including warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services), as well as global freight management (including cargo consolidation and deconsolidation, freight forwarding and custom clearances); and
- Onshore Wholesale Business, operating as an onshore supplier in Americas, Europe and Asia, primarily to supply apparel to mainly the same customer base of its Supply Chain Solutions business. The Group acts as an onshore importer for customers, and while the terms of each order are agreed on a per-program basis, its relationships with customers are typically long-term and strategic in nature.

(3) RATIONALE OF THE STRATEGIC DIVESTMENT

The Strategic Divestment

The Company believes that the Strategic Divestment would be beneficial for the Company and the Shareholders for the following reasons:

1. Simplified organisation with more agility

The Strategic Divestment will allow the Company to set the foundation for a more simplified organisation with greater agility and focus on core competencies and its senior management team to focus resources on its Three-Year Plan to deliver long-term shareholder value. The Directors believe the Company's execution of the Three-Year Plan would be better served with a leaner organisation all focused on the same strategic direction.

2. Focus on core competencies for the future

As part of its Three-Year Plan, the Group has determined that the Services Segment would form the core part of the digitalised supply chain of the future that it is creating, and the Group will continue to leverage the design and customers access of its Onshore Wholesale Business in Americas, Europe and Asia to deliver long-term shareholder value.

The Company is on track to deliver a digital platform that connects suppliers, vendors, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of the Company's future service offerings enabling the Company to provide better and faster supply chain services beyond the traditional product design and development, sourcing and logistics competencies.

The Board of Directors believe this Strategic Divestment will allow the Company to reallocate its resources in developing the digital, connected supply chain of the future to enable the Company to deliver long-term shareholder value.

3. Strategic Divestment at an attractive Consideration

The Consideration of US$1,100 million (HK$8,536 million) on a cash free/debt free basis, implies a valuation multiple of 14.7x enterprise value to the Target Business' operating profit (earnings before interest and tax) of US$75 million (for the 12 months ended 30 September 2017) and 12.4x enterprise value to the Target Business's core operating profit of US$89 million (for the 12 months ended 30 September 2017).

For businesses that are still under margin pressure and declining profitability due to significant change in market conditions, and would require significant working capital and capital expenditures to fund growth, the Directors (excluding the Independent Board Committee who will express their views after considering the advice of the Independent Financial Adviser) believe that the Consideration is attractive to the Company and its Shareholders.

The Target Business has been experiencing a decline in turnover, core operating profit, and earnings before interest and tax, as illustrated in the table below.

	Year ended 31 December 2015	Year ended 31 December 2016	12 months ended 30 September 2017
	(unaudited)	(unaudited)	(unaudited)
Turnover	**2,154**	**1,939**	**1,874**
% Change[1]	**-**	***(10.0%)***	***(3.3%)***
Core operating profit	**103**	**92**	**89**
% Change[1]	**-**	***(10.8%)***	***(3.6%)***
Earnings before interest and tax	**89**	***78***	***75***
%Change[1]	**-**	***(12.0%)***	***(4.2%)***

1. Indicates % change between year ended 31 December 2015 and year ended 31 December 2016, and between year ended 31 December 2016 and 12 months ended 30 September 2017.

4. Benefit to Shareholders – the proposed Special Dividend

The Shareholders expect to benefit from the Strategic Divestment with: (i) substantial and immediate cash realisation from the Special Dividend; and (ii) the continuous growth of the Company for reasons described above.

The Board proposes that a special dividend of approximately US$520 million (HK$4,035 million) or dividends per Share of approximately US$0.0614 (HK$0.476), payable out of part of the proceeds from the Strategic Divestment, be distributed as soon as practicable and in any event within two months of Closing, to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. The Special Dividend would be equivalent to more than double the total annual dividend of HK$0.23 per share paid in 2016.

5. Enhance financial flexibility and further strengthen capital structure

As a result of the Strategic Divestment and after paying the Special Dividend, the remaining cash proceeds of approximately US$580 million will increase the Company's financial flexibility and further strengthen its capital structure to build the supply chain of future.

The Company will continue to take a conservative approach to managing its balance sheet and capital structure. As of the date of this announcement, the Company's credit rating was Baa1 according to Moody's and BBB+ according to Standard & Poor's. The Company is committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with a long-term target of retaining an investment-grade rating.

(4) THE SALE AND PURCHASE AGREEMENT

Date

14 December 2017

Parties

(i) True Sage Limited, as the Purchaser

(ii) the Company, as the seller

Subject shares and assets under the Strategic Divestment

The Target Shares, representing the entire issued share capital of the Target Holding Company; and the Business Assets including certain assets and contracts exclusively or predominantly related to the Target Business, together with the Assumed Liabilities.

Consideration

The Consideration under the Sale and Purchase Agreement shall be US$1,100 million payable at Closing, subject to customary adjustments for estimated net working capital as at the Closing. The Consideration will be subject to further adjustments based on agreed closing accounts by:

(i) adding the amount of cash of the Target Group as at the Closing Date;

(ii) deducting the amount of indebtedness of the Target Group as at the Closing Date; and

(iii) adjusting for the difference between the amounts of the actual net working capital and the last 12 months average net working capital of the Target Business as the last day of the month before the Closing Date and taking into account the estimated net working capital adjustment made at Closing.

The Consideration was arrived at after arm's length negotiations between the Company and the Purchaser with reference to the Target Group's historical performance and future prospects.

Conditions

The Strategic Divestment will be conditional upon the following:

(i) the passing of a resolution by the Shareholders of the Company approving the Strategic Divestment in accordance with Chapter 14 and Chapter 14A of the Listing Rules;

(ii) completion of the pre-Closing Reorganisation step with respect to the Target Business so that all Target Subsidiaries have been transferred within the Target Group to reflect the expected structure of the Target Group as at Closing; and

(iv) clearance of the Strategic Divestment being obtained from the relevant merger control authorities in China and the United States,

together the "Conditions".

Closing

Subject to the fulfilment or waiver (as applicable) of the above Conditions, the Strategic Divestment shall be completed on the Closing Date.

Upon Closing, the Target Holding Company and each of its subsidiaries will cease to be a subsidiary of the Company and will become a wholly owned subsidiary of the Purchaser.

Post-Closing Transfers

The legal transfers of title of the Target Holding Company and the Business Assets and Assumed Liabilities shall take place on Closing, or, in the case of certain Business Assets, as soon as reasonably practicable after Closing. To the extent it is not practicable to transfer certain Business Assets at Closing, such Business Assets will be transferred at a time agreed among the parties. For any misallocated assets that are inadvertently transferred at Closing as part of the Target Group, the parties will arrange for the appropriate re-allocation or re-transfer of those assets as soon as reasonably practicable following Closing.

Reorganisation

The parties will undertake a reorganisation to ensure that (x) the Target Business operates through the Target Group and separate from the LF Group, and (y) the Target Group has no other business, assets, employees or liabilities other than those of the Target Business (the "Reorganisation").

The Reorganisation comprises the following transactions, subject to compliance with local rules and regulations (the "Reorganisation Steps"):

(i) in relation to companies that exclusively or predominately carry on the Target Business at the date of the Sale and Purchase Agreement, transfer of shares of such companies to the members of the Target Group or Business Transferee in order to implement the Closing structure of the Target Business;

(ii) transfer to the Target Group or Business Transferees of the Business Assets and the Assumed Liabilities by the relevant Business Transferors; and

(iii) in relation to members of the Target Group or Business Transferor that own assets, contracts and employees that are not used exclusively or predominately for the Target Business at the Closing Date, transfer of any such assets, contracts and employees by the relevant members of the Target Group or Business Transferor to the relevant members of the LF Group (or a newly incorporated company to be held by the LF Group).

The parties will establish a joint reorganisation committee to continue to implement the Reorganisation.

Commitment Letters

In connection with the Strategic Divestment, the Purchaser has provided to the Company:

- an equity commitment letter from USEL and a subsidiary of each of FH 1937 and FIL containing details of the committed equity financing to be provided in connection with the Strategic Divestment. The equity commitment covers the equity portion of the purchase price plus the amount of any claims under the Sales and Purchase Agreement;

- a mezzanine commitment letter from USEL containing details of the committed mezzanine financing to be provided in connection with the Strategic Divestment; and

- a bank commitment letter from Bank of China containing details of the committed debt financing to be provided in connection with the Strategic Divestment.

(5) INFORMATION ON THE TARGET BUSINESS

Following Closing, the Target Group will own and operate the Target Business. The carrying value of the assets of the Target Business in the financial statements of the Group was approximately US$1,920 million as of 31 December 2016. The following table provides selected unaudited financial metrics of the Target Business based on unaudited management accounts for the periods indicated:

In US$ million	Year ended 31 December 2015	Year ended 31 December 2016	12 months ended 30 September 2017
	(unaudited)	(unaudited)	(unaudited)
Turnover	2,154	1,939	1,874
Core operating profit	103	92	89
Earnings before interest and tax	89	78	75
Profit before tax	88	77	N/A
Profit after tax	70	61	N/A

In August 2017, the Company formed a joint venture with South Ocean to combine the operations and resources of the Company's sweater vertical together with South Ocean's knitwear business to become one of the largest and most innovative knitwear suppliers globally. Since completion of the transaction in September 2017 and before the Closing Date, the joint venture vehicle, Cobalt Fashion Holding Limited, is owned 62% by the Company and 38% by South Ocean. No cash consideration was paid by the Company in connection with the combination of these two business. The joint venture will be transferred to the Purchaser as part of the Strategic Divestment. The turnover of the joint venture was approximately US$700 million for the 12 months ended 31 March 2017. As the formation of joint venture Cobalt Fashion Holding Limited was completed on 30 September 2017, the financial metrics in the table above do not reflect the contribution from South Ocean's business.

Other than joint venture Cobalt Fashion Holding Limited, no other assets or shares subject to the Strategic Divestment have been acquired in the past 12 months.

(6) FINANCIAL EFFECT OF THE STRATEGIC DIVESTMENT

Based on:

(i) the estimated carrying value of approximately US$1,710 million for the assets of the Target Business, calculated on a cash free/debt free basis and adjusted for the expected variance between the target and actual net working capital delivery; and

(ii) the initial Consideration under the Sale and Purchase Agreement of US$1,100 million on cash free/debt free basis,

the Group is expected to recognise a loss of approximately US$610 million attributable to discontinued operations, which includes write-down of goodwill attributable to the Target Group's acquisitions in prior years. In respect of these acquisitions, the Group has recognised contingent consideration write-back of US$282 million as non-operating income in prior years. Should the above write-back be taken into overall consideration, the loss from the Strategic Divestment would have been US$328 million.

The estimated carrying value of approximately US$1,710 million for the assets of the Target Business has been derived from:

(i) the carrying value of the assets of the Target Business in the financial statements of the Group of approximately US$1,920 million as of 31 December 2016; and

(ii) the estimated net adjustment to the initial Consideration of approximately US$210 million for the cash free/debt free basis and the variance between the target and actual net working capital delivery.

It is expected that the estimated loss from the Strategic Divestment would trigger the reporting by the Group of a total net loss attributable to shareholders in 2017. Excluding such loss, the Group's net profit attributable to shareholders from continued operations remain solid. The Strategic Divestment will also trigger the realisation of prior period foreign exchange non-cash translation losses, which are approximately US$106 million as of 31 December 2016, which could be recorded in 2018, after Closing of the Strategic Divestment. However, the actual loss resulting from the Strategic Divestment and the realisation of prior period foreign exchange non-cash translation losses may be different from the expected amounts as stated above, as the actual loss will depend on, among other things, the carrying value of the assets of the Target Business as at the Closing Date. The above accounting losses have no impact on the Company's cash flow, nor its future operational and financial performance.

Upon Closing, the Target Holding Company and its subsidiaries will cease to be subsidiaries of the Company. Accordingly, the financial results of the Target Group will no longer be consolidated into the consolidated financial statements of the Group upon Closing.

Based on the audited financial statements of the Group as at 31 December 2016, it is estimated that immediately after Closing, the carrying value of the assets of the Group will decrease by approximately US$610 million.

(7) USE OF PROCEEDS

Upon Closing, the Company expects to realise gross proceeds of approximately US$1,100 million (HK$8,536 million) (before deduction of transaction costs and expenses) from the Strategic Divestment, and intends to apply them to: (i) fund the Special Dividend; and (ii) further strengthen financial position and capital structure of the Company, and maintain flexibility for future refinancing needs.

(8) 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.

(9) INFORMATION ON THE PURCHASER

The Purchaser is a special purpose vehicle incorporated in the British Virgin Islands with limited liability and at Closing will be owned directly or indirectly by USEL, FH 1937 and FIL.

At Closing, the Purchaser will be 55% owned 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.

At Closing, the Purchaser will be 45% owned 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.

(10) PROPOSED CONDITIONAL SPECIAL DIVIDEND

The Board proposes that a special dividend of approximately US$520 million (HK$4,035 million) or dividends per Share of approximately US$0.0614 (HK$0.476), payable out of part of the proceeds from the Strategic Divestment, be distributed as soon as practicable and in any event within two months of Closing, to the Shareholders whose names appear on the register of members of the Company on a record date to be determined. The Special Dividend would be conditional upon Closing of the Strategic Divestment.

As the Strategic Divestment allows the Shareholders the opportunity to realise value while the Company focuses on its core businesses, the Board considers that the proposed distribution of the Special Dividend, if approved and materialised, would be in the interests of the Company and the Shareholders as a whole. The Special Dividend would provide a substantial and immediate cash realisation to the Shareholders from the outcome of the Strategic Divestment. If the Strategic Divestment is not approved by the Independent Shareholders, or does not complete, then the Special Dividend will lapse and will not be paid.

Further details of the Special Dividend to be declared and payable, the closure date of the register of members of the Company, the record date and the pay-out date for the Special Dividend will be set out in the circular to be despatched to the Shareholders containing the notice convening the SGM, as more particularly described under the paragraph "14. SGM and Despatch of Circular" of this announcement.

(11) THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

On or before the Closing Date, 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 and the Target Group will enter into the following Proposed 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.

(a) Services Agreement

Date

It is proposed that the Services Agreement will be entered into on or before the Closing Date.

Parties

(i) the Company

(ii) the Target Holding Company

Services to be provided

The Services Agreement governs the terms on which members of the Libra 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 will commence on the Closing Date 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 proposed 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

It is proposed that the Master Property Agreement will be entered into on or before the Closing Date.

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 will commence on the Closing Date 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

It is proposed that the Ancillary Sourcing, Logistics and Trading Services Agreement will be entered into on or before the Closing Date.

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 will commence on the Closing Date 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 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; (iv) estimated future growth in volume requirements of the service recipients over the term of the Ancillary Sourcing, Logistics and Trading Services Agreement.

(12) LISTING RULES IMPLICATIONS

With respect to the Strategic Divestment, as one or more of the applicable percentage ratios for the Strategic Divestment are more than 25% but less than 75%, the Strategic Divestment constitutes a major transaction for the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

FH 1937 is a substantial shareholder of the Company and, at Closing, will own 45% of the Purchaser's shares.

Since FH 1937 is a substantial shareholder of the Company, FH 1937 and members of the FH 1937 Group are connected persons of the Company. Accordingly, the Strategic Divestment will constitute a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A of the Listing Rules.

The Proposed Continuing Connected Transactions will also 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 Proposed 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 Strategic Divestment (and the transactions contemplated thereunder) and the Proposed Continuing Connected Transactions by virtue of his interest in the Purchaser, and therefore has abstained from voting on the board resolutions in respect of the Strategic Divestment (and the transactions contemplated thereunder) and the Proposed Continuing Connected Transactions.

Moreover, pursuant to the Listing Rules, any Shareholder with a material interest in the Strategic Divestment and its associates are required to abstain from voting at the SGM on the relevant resolutions in relation thereto. As such, FH 1937, Victor Fung Kwok King, William Fung Kwok Lun and Spencer Theodore Fung and their respective associates are required to abstain from voting at the SGM on the relevant resolutions in relation thereto. No other Shareholder is required to abstain from voting at the SGM.

Based on the reasons set out in this Announcement and having considered all of the relevant factors, the Directors (excluding the Independent Non-executive Directors who will express their views after considering the advice of the Independent Financial Adviser) consider that the Strategic Divestment and the transactions contemplated thereunder, though 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.

Based on the reasons set out in this Announcement and having considered all of the relevant factors, the Directors (excluding the Independent Non-executive Directors who will express their views at same time when they consider the Strategic Divestment) consider that the Proposed Continuing Connected Transactions, despite the fact that the Services Agreement and Master Services 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.

(13) INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, an Independent Board Committee comprising all of the Independent Non-executive Directors has been established to advise the Independent Shareholders as to the Strategic Divestment.

The Company has appointed, and the Independent Board Committee has approved the appointment of, BNP Paribas Securities (Asia) Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters.

(14) SGM AND DESPATCH OF CIRCULAR

The SGM will be convened to consider and, if thought fit, approve, among other matters, the Strategic Divestment.

A circular containing, among other information: (i) further details of the Strategic Divestment, the Proposed Continuing Connected Transactions and the Special Dividend to be declared and payable; (ii) the advice and recommendations of the Independent Board Committee; (iii) the advice and recommendations of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) notice of the SGM, are expected to be despatched to the Shareholders on or before 9 January 2018 in accordance with the requirements of the Listing Rules.

(15) WARNING

Shareholders and potential investors of the Company should note that (i) the Strategic Divestment; and (ii) the Special Dividend may or may not proceed, as they are conditional upon each other and 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.

(16) DEFINITIONS

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

"Ancillary Sourcing, Logistics and Trading Agreement"	the Ancillary Sourcing, Logistics and Trading Services Agreement entered into between the Company and the Target Holding Company on or before the Closing Date, which 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, for the service fees set out under the paragraph "11. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" of this announcement
"associates"	has the meaning ascribed to it under the Listing Rules
"Assumed Liabilities"	all liabilities, duties and obligations of every description associated with: (a) trade-relevant liabilities of the relevant Business Assets; (b) tax and deferred tax liabilities of the Target Group held by the Business Transferors; (c) litigation involving the Business Transferors relating to the Target Business; and (d) the freehold and leasehold properties of the Business Transferors, in each case excluding those liabilities set out in the Sale and Purchase Agreement
"Board"	the board of Directors
"Business Assets"	certain assets and contracts relating to the Target Business owned by the Business Transferors
"Business Transferors"	certain members of the LF Group appointed as a Business Transferor of any Business Asset and Assumed Liability pursuant to the Sale and Purchase Agreement, and "Business Transferor" means any one of them
"Closing"	completion of the Strategic Divestment in accordance with the terms of the Sale and Purchase Agreement
"Closing Date"	the eleventh business day after satisfaction of the Conditions
"Company"	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (stock code: 494); and the seller (through itself and the Business Transferors) of the Target Business
"Conditions"	the Conditions to Closing, as more particularly described under the paragraph "4. The Sale and Purchase Agreement – Conditions" in this announcement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the consideration payable by the Purchaser to the Company pursuant to the Sale and Purchase Agreement, as more particularly described under the paragraph "4. The Sale and Purchase Agreement – Consideration" in this announcement
"Directors"	the directors of the Company
"Exclusive Financial Adviser"	Citigroup Global Markets Asia Limited, a company incorporated in Hong Kong with limited liability, and licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
"Family"	William Fung Kwok Lun and a trust established for the benefit of the family members of Victor Fung Kwok King, including Spencer Theodore Fung
"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)
"FIL"	Fung Investments Limited, a limited liability company incorporated in the British Virgin Islands
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising Allan Wong Chi Yun, Martin Tang Yue Nien, Margaret Leung Ko May Yee and Chih Tin Cheung, being the Independent Non-executive Directors, formed to advise the Independent Shareholders on the Strategic Divestment and the transactions contemplated thereunder
"Independent Financial Adviser"	the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the Strategic Divestment and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders, other than FH 1937, Victor Fung Kwok King, William Fung Kwok Lun, Spencer Theodore Fung and their associates
"LF Group"	the Group excluding the Target Group (which includes the Target Holding Company)
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Logistics Business"	includes Asia-focused in-country logistics (warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services) and global freight management (cargo consolidation and deconsolidation, freight forwarding and customs clearance)
"Logistics Services"	logistics services provided by the LF Group to the Target Group under and for the term of the Ancillary Sourcing, Logistics and Trading Services Agreement, as more particularly described under the paragraph "11. The Continuing Connected Transaction – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" in this announcement
"Master Property Agreement"	the master property agreement to be entered into between the Company and the Target Holding Company on or before the Closing Date, which 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, for the rental or licence fee set out under the paragraph "11. The Proposed Continuing Connected Transactions – (b) Master Property Agreement" of this announcement
"Moody's"	Moody's Investors Service
"Onshore Wholesale Business"	part of the Company's Products Segment covering apparel and footwear
"PRC"	the People's Republic of China (excluding for the purposes of this announcement, Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan)
"Products Segment"	one of the two distinct business segments which the Company operates as at the date of the Sale and Purchase Agreement including the beauty, sweater, furniture product verticals, and the Onshore Wholesale Business covering apparel and footwear, along with related support services, as more particularly described under the paragraph "2. Background to the Strategic Divestment – (b) The Company's existing businesses under the Three-Year Plan" in this announcement
"Proposed Continuing Connected Transactions"	the transactions described under the paragraph "11. The Proposed Continuing Connected Transactions" in this announcement
"Purchaser"	True Sage Limited, a special purpose vehicle incorporated in the British Virgin Islands and which, at Closing, will be owned by FH 1937, FIL and USEL
"Reorganisation"	the pre- and post-Closing reorganisation of the Target Business as more particularly described under the paragraph

	"4. The Sale and Purchase Agreement – Reorganisation" in this announcement
"Reorganisation Steps"	the transactions that comprise the Reorganisation, as more particularly described under the paragraph "4. The Sale and Purchase Agreement – Reorganisation" in this announcement
"Sale and Purchase Agreement"	the sale and purchase agreement entered into between the Purchaser and the Company on 14 December 2017 in relation to the sale and purchase of the Target Shares and the Business Assets together with the Assumed Liabilities for the consideration set out under the paragraph "4. The Sale and Purchase Agreement" of this announcement
"Services Agreement"	the services agreement to be entered into between the Company and the Target Holding Company on or before the Closing Date, which governs the terms on which members of the Target Group and members of the LF Group provide certain IT, human resources, finance and accounting, corporate, and global transaction services to and from one another for the service fee set out under the paragraph "11. The Proposed Continuing Connected Transactions – (a) Services Agreement" of this announcement
"Services Segment"	one of the two distinct business segments which the Company operates, where the Company acts as agent for brands, wholesalers and retailers who are outsourcing their global supply chains, as more particularly described under the paragraph "2. Background to the Strategic Divestment – (b) The Company's existing businesses under the Three-Year Plan" in this announcement
"SFO"	the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held to, among other things, consider and, if thought fit, approve the Strategic Divestment and the transactions contemplated thereunder
"Shareholder(s)"	holders of Shares
"Shares"	ordinary shares of HK$0.0125 each in the issued share capital of the Company
"Sourcing Services"	sourcing and supply chain management services provided by the LF Group to the Target Group under and for the term of the Ancillary Sourcing, Logistics and Trading Services Agreement, as more particularly described under the paragraph "11. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" in this announcement
"South Ocean"	South Ocean Knitters Holdings Limited, a company incorporated with limited liability under the laws of the British

	Virgin Islands, which engages in knitwear manufacturing, spinning, dying, knitting, and finishing
"Special Dividend"	the special cash dividend of approximately US$520 million (HK$4,035 million) or dividend per Share of approximately US$0.0614 (HK$0.476), which is subject to the Board's approval, as more particularly described under the paragraph "10. Proposed Conditional Special Dividend" in this announcement
"Standard & Poor's"	Standard & Poor's Rating Services
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Divestment"	the sale and purchase of the Target Shares and the Business Assets, together with the Assumed Liabilities, in accordance with the provisions of the Sale and Purchase Agreement
"Supply Chain Solutions"	in offering this service, the Company acts as an outsourcing service provider to provide core functionality to customers' in-house buying offices under multi-year buying agency agreements, and charges the customers commissions calculated based on the product costs
"Target Business"	the product verticals-based businesses operating under LF Furniture, LF Beauty and LF Sweaters and carried on (i) by the Target Group together with (ii) each Business Transferor as at the Closing Date; and comprising of the Target Shares, the Business Assets and the Assumed Liabilities
"Target Group"	(i) the Target Holding Company; and (ii) the Target Subsidiaries
"Target Holding Company"	LF Pegasus Limited, a company incorporated with limited liability under the laws of the British Virgin Islands and which is currently wholly owned by the Company as at the date of the Sale and Purchase Agreement, and which will be the primary holding company for the Target Subsidiaries and the Target Business subject to the Reorganisation, and which will become a wholly owned subsidiary of the Purchaser as at Closing
"Target Shares"	the shares comprising the entire issued share capital of the Target Holding Company
"Target Subsidiaries"	the subsidiaries of the Target Holding Company as at Closing and after the completion of the Reorganisation, and "Target Subsidiary" means any one of them
"Trading Services"	principal trading services provided by the Target Group to the LF Group under and for the term of the Ancillary Sourcing, Logistics and Trading Services Agreement, which include design and sale of products under the Target Group's product vertical lines to customers of the LF Group, as more particularly described under the paragraph "11. The Continuing Connected Transaction Agreements – (c) Ancillary

	Sourcing, Logistics and Trading Services Agreement" in this announcement
"US$"	United States dollar, the lawful currency of the United States of America
"USEL"	United Strength Element Limited, a company incorporated with limited liability under the laws of the British Virgin Islands

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

Hong Kong, 14 December 2017

Website: www.lifung.com

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 Allan Wong Chi Yun, Martin Tang Yue Nien, Margaret Leung Ko May Yee and Chih Tin Cheung.
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