THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Li & Fung Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

Exclusive Financial Adviser

citi

Citigroup Global Markets Asia Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

BNP PARIBAS

BNP Paribas Securities (Asia) Limited

A letter from the Board is set out on pages 9 to 31 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 32 to 33 of this circular. A letter from the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 58 of this circular.

A notice convening the SGM of the Company to be held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I & II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong, on Wednesday, 31 January 2018 at 11:30 a.m. is set out on page SGM-1 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof, should you so wish.

9 January 2018

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DEFINITIONS

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

"Ancillary Sourcing, Logistics and Trading Services 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 "10. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" of this circular
"Announcement"	the announcement of the Company dated 14 December 2017 in respect of the Strategic Divestment and the transactions contemplated thereunder, the Proposed Continuing Connected Transactions and the Special Dividend
"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) certain tax liabilities relating to the Target Group held by the Business Transferors; (c) litigation involving the Business Transferors relating to the Target Business; and (d) the 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

"Bye-laws"	the bye-laws of the Company
"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 "3. The Sale and Purchase Agreement – Conditions" in this circular
"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 "3. The Sale and Purchase Agreement – Consideration" in this circular
"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 HSBC Trustee (C.I.) Limited as trustee of 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
"HK$"	Hong Kong dollar, the lawful currency of the Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising Margaret Leung Ko May Yee, Allan Wong Chi Yun, Martin Tang Yue Nien 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"	BNP Paribas Securities (Asia) Limited, 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 Terence Fung Yue Ming and their respective associates
"Latest Practicable Date"	4 January 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"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 "10. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" in this circular
"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 "10. The Proposed Continuing Connected Transactions – (b) Master Property Agreement" of this circular
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
"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 circular Hong Kong, 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 "1. Background to the Strategic Divestment – (B) The Company's existing businesses under the Three-Year Plan" in this circular

"Proposed Continuing Connected Transactions"	the transactions described under the paragraph "10. The Proposed Continuing Connected Transactions" in this circular
"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 "3. The Sale and Purchase Agreement – Reorganisation" in this circular
"Reorganisation Steps"	the transactions that comprise the Reorganisation, as more particularly described under the paragraph "3. The Sale and Purchase Agreement – Reorganisation" in this circular
"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 "3. The Sale and Purchase Agreement" of this circular
"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 services, and global transaction services to and from one another for the service fee set out under the paragraph "10. The Proposed Continuing Connected Transactions – (a) Services Agreement" of this circular
"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 "1. Background to the Strategic Divestment – (B) The Company's existing businesses under the Three-Year Plan" in this circular

"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 "10. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" in this circular
"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 "9. Proposed Conditional Special Dividend" in this circular
"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 "10. The Proposed Continuing Connected Transactions – (c) Ancillary Sourcing, Logistics and Trading Services Agreement" in this circular

"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

References to time and dates in this circular are to Hong Kong time and dates.

For the purposes of this circular and for illustrative purpose only, US$ is converted into HK$ at the rate of US$1 to HK$7.76. No representation is made that any amounts in US$ has been or could be converted at the above rate or at any other rates.

LI & FUNG LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 494

Executive Directors:
William Fung Kwok Lun
(Group Chairman)
Spencer Theodore Fung
(Group Chief Executive Officer)
Marc Robert Compagnon

Non-executive Directors:
Victor Fung Kwok King
(Honorary Chairman)
Allan Wong Chi Yun*
Martin Tang Yue Nien*
Margaret Leung Ko May Yee*
Chih Tin Cheung*

* *Independent Non-executive Director*

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9 January 2018

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

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(4) APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

To Shareholders,

Dear Sir or Madam,

INTRODUCTION

The Board announced that after trading hours on 14 December 2017, the Company entered into the Sale and Purchase Agreement with the Purchaser, an entity which will be directly or indirectly 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 experiencing a decline in turnover and operating under margin pressure with declining profitability due to significant change in market conditions for the Target Business. 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 (excluding the payment of the Special Dividend), 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 announced 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.

The purpose of this circular is to give you:

(i) further details of the Strategic Divestment;

(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.

1. 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 continues 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 product verticals consolidate some of the trading businesses of the Company in specific product areas. The Target Business is acting as a principal supplier to provide fully developed market-ready products to customers based on their needs and brand images. It has a unique business model to trade with customers as a principal to provide product design and development, factory sourcing and manufacturing control and other value-added services. As a principal trader, the Target Business generally utilises the factory facilities of its vendor base in producing and delivering such products, and it has no brand ownership or retailing business.

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.

2. 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 for the Target Business, and would require significant working capital and capital expenditures to fund growth, the Directors (including the Independent Non-executive Directors) 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.

In US$ million	Year ended 31 December 2015 (unaudited)	Year ended 31 December 2016 (unaudited)	12 months ended 30 September 2017 (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%)*

Note 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 conditional upon Closing of the Strategic Divestment. 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 circular, 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.

3. 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

(iii) 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 (i) the Target Business operates through the Target Group and separate from the LF Group, and (ii) 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.

4. 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** (unaudited)	**Year ended 31 December 2016** (unaudited)	**12 months ended 30 September 2017** (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	75
Profit after tax	70	61	N/A[1]

Note 1: Since the financial period for the 12 months ended 30 September 2017 spans two financial years, it is difficult to provide an accurate estimate of the "Tax" provision and "Profit after tax" due to variations in assumptions for these different financial years.

The following table provides additional selected unaudited financial metrics of the Target Business as at the dates indicated:

Balance Sheet Summary

In US$ million	**31 December 2016** (unaudited)	**30 June 2017** (unaudited)
Intangible assets	1,577	1,580
Operating assets	541	524
Cash	165	199
Total assets	**2,283**	**2,303**
Operating liabilities	331	331
Debt	33	19
Total liabilities	**364**	**350**
Carrying value	**1,920**	**1,953**

In US$ million	**31 December 2016** (unaudited)	**30 June 2017** (unaudited)
Cash free/debt free and estimated variance between the target and actual net working capital delivery	(210)	(242)
The estimated carrying value (after estimated net adjustment)	**1,710**	**1,711**

In August 2017, the Company formed a joint venture with South Ocean to combine the operations and resources of the Company's sweaters 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, but reflect 100% ownership of the financials of the sweaters vertical prior to the joint venture formation.

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.

5. FINANCIAL EFFECT OF THE STRATEGIC DIVESTMENT

Based on the audited financial statements of the Group as at 31 December 2016, as a result of the Strategic Divestment (excluding the payment of the Special Dividend) and subject to post-Closing adjustment to the consideration payable, the total assets, total liabilities and net assets of the Group are expected to be decreased by US$973 million, US$364 million and US$610 million respectively. The reduction of total assets of US$973 million is based on total assets of US$2,283 million minus the Consideration of US$1,100 million and estimated net adjustment of approximately US$210 million for the cash free/debt free basis and the variance between the target and actual net working capital delivery.

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 remains 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, as well as financial covenants on outstanding borrowings.

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 (restated for the impact of adoption of HKFRS 15), it is estimated that immediately after Closing, the carrying value of the net assets (total equity) of the Group will decrease by approximately US$610 million from the estimated loss from the Strategic Divestment from approximately US$3,462 million to US$2,852 million.

Excluding primarily perpetual capital securities, the equity of the Group attributable to shareholders of the Company will decrease from US$2,305 million to US$1,695 million after the Strategic Divestment, out of which over US$1.1 billion is distributable reserves which, together with future profits earned, can be used for future dividend distributions (both normal or special dividends).

6. 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 approximately US$520 million (HK$4,035 million) to fund the Special Dividend. The remaining proceeds of approximately US$580 million (HK$4,501 million) will further strengthen the financial position and capital structure of the Company. The Company intends to leverage the increased cash position and financing flexibility in its capital structure to continue to invest in developing the Group’s business and creating the supply chain of the future, while continuing to optimise its capital structure to meet future refinancing needs. The Company also intends to use the remaining proceeds from the Strategic Divestment for its general working capital purposes and the settlement of the outstanding contingent consideration payables for previous merger and acquisition transactions.

7. 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.

8. 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.

9. 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. The Company will make a further announcement regarding details of Special Dividend to be declared and payable, the record date, the pay-out date and closure of register of members for determining the Shareholders' entitlement to the Special Dividend on or before Closing.

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 distribution of the Special Dividend 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 would lapse and would not be paid.

10. 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 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 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 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;

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

11. 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, Spencer Theodore Fung and Terence Fung Yue Ming and their respective associates, who together hold 2,810,538,284 Shares, representing approximately 33.18% of the issued share capital of the Company, 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 circular and having considered all of the relevant factors, the Directors (including the Independent Non-executive Directors) consider that the Strategic Divestment and the transactions contemplated thereunder, though as a divestment 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 circular and having considered all of the relevant factors, the Directors (including the Independent Non-executive Directors) consider that the Proposed 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.

12. 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.

13. EXCLUSIVE FINANCIAL ADVISER

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

14. SGM

Set out on page SGM-1 of this circular is a notice convening the SGM to be held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I & II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong, on Wednesday, 31 January 2018 at 11:30 a.m. at which resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Strategic Divestment.

There is enclosed a form of proxy for use at the SGM. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company. Whether or not you intend to be present at the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong office at 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the SGM. Such form of proxy for use at the SGM is also published on the Company's website (*www.lifung.com*) and HKExnews website (*www.hkexnews.hk*). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

15. VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll. The Chairman will therefore demand a poll for every resolution put to the vote of the SGM. Pursuant to the Bye-law 78 of the Bye-laws, a poll may be demanded at the SGM by:

(a) the Chairman of the meeting;

(b) at least three members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting;

(c) any member(s) present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) member(s) present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The results of the poll will be published on the Company's and HKExnews websites following the SGM.

16. RECOMMENDATION

The Directors (including Independent Non-executive Directors) consider that the Strategic Divestment and the transactions contemplated thereunder, though as a divestment 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. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Strategic Divestment and the transactions contemplated thereunder.

17. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
William FUNG Kwok Lun
Group Chairman, Li & Fung Limited

LI & FUNG LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 494

9 January 2018

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
STRATEGIC DIVESTMENT OF PRODUCT VERTICALS BUSINESS

We refer to the circular of the Company dated 9 January 2018 (the "circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Strategic Divestment and the transactions contemplated thereunder. BNP Paribas Securities (Asia) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters.

We wish to draw your attention to the letter from the Board as set out on pages 9 to 31 of the circular which contains details of the Strategic Divestment and the transactions contemplated thereunder, and to the letter from Independent Financial Adviser as set out on pages 34 to 58 of the circular which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Strategic Divestment.

Having considered the terms of the Strategic Divestment and the transactions contemplated thereunder, and the advice and recommendation of Independent Financial Adviser, we are of the opinion that the terms of the Strategic Divestment and the transactions contemplated thereunder, though as a divestment 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.

Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the SGM to approve the Strategic Divestment and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Margaret Leung Ko May Yee
Allan Wong Chi Yun
Martin Tang Yue Nien
Chih Tin Cheung
Independent Non-executive Directors, Li & Fung Limited

The following is the text of the letter prepared by BNP Paribas Securities (Asia) Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Strategic Divestment and the transactions contemplated thereunder for inclusion in this circular.

9 January 2018

To the Independent Board Committee
and the Independent Shareholders of
Li & Fung Limited

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
STRATEGIC DIVESTMENT OF PRODUCT VERTICALS BUSINESS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Strategic Divestment. Details of the Strategic Divestment are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 9 January 2018 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 14 December 2017, the Company entered into the Sale and Purchase Agreement with the Purchaser, an entity which will be directly or indirectly 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 (equivalent to approximately HK$8,536 million) on a cash free/debt free basis, subject to Closing adjustments.

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 requirement under Chapter 14A of the Listing Rules.

Pursuant to the requirements of 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 whether (i) the terms of the Strategic Divestment are fair and reasonable; (ii) the Strategic Divestment is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) the Strategic Divestment is in the interests of the Company and the shareholders as a whole; and (iv) the independent shareholders of the Company should vote for the transaction.

We, BNP Paribas Securities (Asia) Limited ("BNP Paribas"), are a licensed corporation holding a license to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap 571 Laws of Hong Kong). We shall receive a fee from the Company for the delivery of this letter in accordance with the terms of our engagement. The Company has also agreed to indemnify us and certain related persons against certain liabilities suffered or incurred by us or our related persons in connection with this engagement and to pay our out-of-pocket expenses.

Apart from the normal professional fees for our services to the Company as described above, no arrangement exists whereby we shall receive any fees or benefits from the Company, its subsidiaries or associates. As at the Latest Practicable Date, we had the following relationships with the Company and the Purchaser:

- BNP Paribas and entities which control or are controlled by or under the same control as BNP Paribas (together, the "BNP Paribas Group") beneficially owned 19,456 shares of the Company, representing approximately 0.0002% of the issued share capital of the Company; and

- BNP Paribas Group beneficially owned 52,000 shares of Legend Holdings Corporation, the ultimate holding shareholder of USEL, representing approximately 0.01% of its issued share capital.

We do not consider the relationships mentioned above would affect the objectivity of our advice, given the fact that the interests so held in the Company are immaterial. Accordingly, we consider ourselves suitable to give independent financial advice to the Independent Board Committee in respect of the Strategic Divestment.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information and facts supplied, as well as the opinions and representations contained or referred to in the Circular and information and representations as provided to us by the Directors, the management of the Company and/or the Company's advisers. We have assumed that all statements, opinions, assumptions, and representations that have been provided are true, complete, accurate and not misleading at the time they are made and continue to be up to and as at the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due and careful consideration. We have no reason to suspect that any material facts or information have been withheld or omitted, or to doubt the truth or accuracy or completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We have also sought and received confirmation from the Directors that all information, facts, representations and opinions expressed in the information that are necessary for the purpose of us carrying out our work in relation to the transaction have been provided after due and careful consideration and formulated on reasonable bases and assumptions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as Independent Financial Adviser, take no responsibility of the contents of any part of the Circular, save and except for this letter.

We have also assumed that all statements made by the Company's management or the Directors, as set forth in the Circular, would be implemented and that all of the expectations of the Directors could be met. We consider that we have received and reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of such information, nor have we conducted an independent investigation into the business and affairs of the Target Group or of any underlying assets of the Target Group, nor have we conducted any valuation or appraisal of any assets or liabilities, nor have we conducted any form of investigation into the commercial viability of the future prospects of the Target Group or of any underlying assets or the financial conditions or future prospects of any of the other parties.

Our opinion is necessarily based upon the financial, market, economic and other conditions in effect and the information available to us as of the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date, or to update, revise or reaffirm our opinion. It should be understood that subsequent developments or changes could occur that, if known at the time we rendered our opinion, would have affected or altered our opinion. We assume no responsibility or liability under such circumstances. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL REASONS AND FACTORS CONSIDERED

In formulating our view, we have taken into consideration the principal reasons, factors and assumptions set out below. In reaching our conclusions, we have considered the results of the analyses in light of each other and ultimately reached an opinion based on the results of all analyses taken as a whole.

1. Information on the Group

1.1 Business activities

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 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.

1.2 Financial information

Set out below is a summary of certain selected financial information of the Group for the two years ended 31 December 2016 and the six months ended 30 June 2017 as reported from its audited financial statements and the interim financial statements:

	(Audited) Year ended 31 December		(Unaudited) Six months ended 30 June	
	2015	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000* (Restated)	*US$'000*
Turnover	18,830,835	16,760,632	7,983,503	7,263,594
Cost of sales	(16,671,655)	(14,820,801)	(7,062,803)	(6,441,043)
Gross profit	2,159,180	1,939,831	920,700	822,551
Other income	29,645	22,153	14,776	12,440
Total margin	2,188,825	1,961,984	935,476	834,991
Selling and distribution expenses	(633,653)	(590,993)	(290,945)	(229,208)
Merchandising and administrative expenses	(1,042,748)	(958,993)	(488,093)	(435,668)

	(Audited) Year ended 31 December		(Unaudited) Six months ended 30 June	
	2015	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000* (Restated)	*US$'000*
Core operating profit	512,424	411,998	156,438	170,115
Gain on remeasurement of contingent consideration payable	116,973	–	–	29,645
Amortization of other intangible assets	(34,412)	(33,801)	(17,337)	(17,513)
Gain on disposal of business	–	7,871	7,871	–
One-off reorganization costs	–	(5,863)	(5,863)	–
Operating profit	594,985	380,205	141,109	182,247
Interest income	9,761	16,324	5,611	6,898
Interest expenses:				
Non-cash interest expenses	(6,662)	(3,971)	(2,247)	(2,451)
Cash interest expenses	(92,879)	(87,525)	(44,732)	(34,586)
	(99,541)	(91,496)	(46,979)	(37,037)
Share of profits less losses of associated companies and joint venture	1,570	1,748	1,582	1,174
Profit before taxation	506,775	306,781	101,323	153,282
Taxation	(57,890)	(48,521)	(14,595)	(20,766)
Net profit for the year/period	448,885	258,260	86,728	132,516
Profit attributable to:				
– Shareholders	421,046	223,146	72,315	100,955
– Holders of perpetual capital securities	30,000	35,687	15,000	32,063
– Non-controlling interests	(2,161)	(573)	(587)	(502)
	448,885	258,260	86,728	132,516
Earnings per share (US cents) – Basic	5.04	2.67	0.87	1.21

An analysis of the turnover and core operating profit by segment for the period is set out below:

	(Audited) Year ended 31 December	
	2015	**2016**
	US$'000	*US$'000*
Turnover		
– Trading network	17,906,577	15,856,738
– Logistics network	932,170	907,307
– Elimination	(7,912)	(3,413)
	18,830,835	16,760,632
Core operating profit		
– Trading network	459,875	351,323
– Logistics network	52,549	60,675
	512,424	411,998

	(Unaudited) Six months ended 30 June	
	2016	**2017**
	US$'000	*US$'000*
	(Restated)	
Turnover		
– Services	5,837,393	5,812,935
– Products	1,603,838	1,473,757
– Divested Asia Consumer and Healthcare Distribution Business	565,920	–
– Elimination	(23,648)	(23,098)
	7,983,503	7,263,594
Core operating profit		
– Services	105,680	137,015
– Products	46,348	33,100
– Divested Asia Consumer and Healthcare Distribution Business	4,410	–
	156,438	170,115

Year ended 31 December 2016

As stated in the Company's 2016 annual report, turnover decreased by approximately 11.0% year on year to US$16.8 billion for the year ended 31 December 2016. The decrease is partly impacted by the strategic divestment of the Asia consumer and healthcare distribution business in June 2016. Excluding the Asia consumer and healthcare distribution business, turnover declined 8.3% for the same period. Trading turnover also continued to be affected by its customers' conservative buying programs, soft input prices and relative currency weaknesses against the US dollar.

Core operating profit decreased by approximately 19.6% year on year to US$412 million. The decline was mainly due to lower turnover and total margin in the Company's trading network, as well as the strategic divestment of the Asia consumer and healthcare distribution business. Excluding the Asia consumer and healthcare distribution business, core operating profit declined 17.7% for the same period. The reduction in trading core operating profit was partially offset by the approximately 15.5% increase in core operating profit from the logistics network of the Company.

Six months ended 30 June 2017

As stated in the Company's 2017 interim financial statements, turnover for the six months ended 30 June 2017 decreased by approximately 9.0% year on year, due primarily to the strategic divestment of the Asia consumer and healthcare distribution business. Excluding the Asia consumer and healthcare distribution business, turnover declined 2.1% for the same period. Subdued retail sentiment resulting from economic and geopolitical uncertainties continued to weigh on the Group's brand and retail customers, who continued to tighten their inventory control through more conservative buying patterns.

Core operating profit increased by approximately 8.7% year on year. Excluding the Asia consumer and healthcare distribution business, core operating profit increased by 11.9% for the same period. The increase was largely due to higher total margin percentage and lower operating costs. Both the Services and Products segments achieved higher total margin percentage and reduction in operating costs through productivity gains and strategic cost control.

During the six months ended 30 June 2017, the Group has reorganized the business and its reporting structure into two new segments, namely Services Segment and Products Segment. The Services Segment focuses on provision of the supply chain solutions and Logistics Services. The Products Segment focuses on sweaters, furniture and beauty product verticals and the Onshore Wholesale Business. The Group's management considers the business principally from the perspective of these two new segments.

Services segment

According to the Company's 2017 interim report, under the Company's new structure, the Services segment includes Supply Chain Solutions business and Logistics business. It represented 80% of total turnover in first half of 2017. Turnover for the Services segment remained flat, as turnover for the Supply Chain Solutions business largely stabilized with a slight decrease of 1.7%, of which turnover for the Logistics business increased by 15.2%. The Services segment delivered a 29.7% increase in core operating profit that was largely due to a 2.0% increase in total margin which resulted from continued business wins in the Logistics business as well as a strategic cost reduction of 5.2%.

According to the Company's 2017 interim report, the Supply Chain Solutions business, which represents 73% of total turnover in first half of 2017, has seen growth of 33.1% in core operating profit despite the slight decrease of 1.7% in turnover. The core operating profit margin increased by 0.6 percentage point to 2.0% due to productivity gain and strategic cost control.

According to the Company's 2017 interim report, the Logistics business has recorded a solid growth of 15.2% increase in turnover and 19.7% increase in core operating profit. According to the Company's annual reports since 2011, the Logistics business has been recording double digit annual growth in core operating profit for each consecutive year since 2011.

Products segment

Turnover for the Products segment decreased by 8.1% year on year to US$1.5 billion, which was largely due to anemic consumer sentiment and an unstable economic environment, particularly in Europe. The weakness of the British pound and Euro against the US dollar also had a negative currency translation impact on the turnover. Core operating profit decreased by 28.6% to US$33 million. Core operating profit margin decreased by 0.7 percentage point to 2.2%, which was largely the result of the decrease in turnover, pressure on total margin and an incommensurate reduction in operating costs.

It is noted that the Target Business accounted for a major part of the turnover and core operating profit of the Products segment.

According to the 2017 interim report of the Group, the net asset value of the Group amounted to approximately US$3,462 million and US$3,466 million respectively as at 31 December 2016 and 30 June 2017, respectively.

2. Information on the Target Group and the Target Business

Following the Closing, the Target Group will own and operate the Target Business. 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 is 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.

As disclosed in the Letter from the Board in the Circular, 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:

	(Unaudited) Year ended 31 December 2015	**(Unaudited) Year ended 31 December 2016**	**(Unaudited) 12 months ended 30 September 2017**
	US$' million	*US$' million*	*US$' million*
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	75
Profit after tax	70	61	N/A *(Note)*

Note: Since the financial period for the 12 months ended 30 September 2017 spans two financial years, it is difficult to provide an accurate estimate of the "Tax" provision and "Profit after tax" because of variations in assumptions for those different fiscal years.

The following table provides additional selected unaudited financial metrics of the Target Business for the period indicated:

Balance Sheet Summary

	(Unaudited) 31 December 2016 *US$' million*	**(Unaudited) 30 June 2017** *US$' million*
Intangible assets	1,577	1,580
Operating assets	541	524
Cash	165	199
Total assets	2,283	2,303
Operating liabilities	331	331
Debt	33	19
Total liabilities	364	350
Carrying value	1,920	1,953
Cash free/debt free and estimated variance between the target and actual net working capital delivery	(210)	(242)
The estimated carrying value (after estimated net adjustment)	1,710	1,711

We note that the Target Business has been experiencing a decline in turnover, core operating profit, earnings before interest and tax, profit before tax and profit after tax. From the year ended 31 December 2015 to the year ended 31 December 2016, turnover had decreased from US$2,154 million to US$1,939 million, core operating profit had decreased from US$103 million to US$92 million, earnings before interest and tax had decreased from US$89 million to US$78 million, profit before tax had decreased from US$88 million to US$77 million, and profit after tax had decreased from US$70 million to US$61 million, respectively.

We also note that the Target Business has experienced a decline in turnover, core operating profit, earnings before interest and tax and profit before tax if we compare the results for the year ended 31 December 2016 and the latest twelve-month period ended 30 September 2017 (“LTM”). Turnover had decreased from US$1,939 million to US$1,874 million, core operating profit had decreased from US$92 million to US$89 million, earnings before interest and tax had decreased from US$78 million to US$75 million and profit before tax had decreased from US$77 million to US$75 million respectively. The reasons for the decline are generally similar to the reasons for the decline in the financial performance of the Products segment for the six months ended 30 June 2017 as described above.

In addition, as stated in the Letter from the Board in the Circular, the Target Business has continued to experience decline in turnover, operate under margin pressure and declining profitability due to significant change in market conditions for the principal business, and would require significant working capital and capital expenditures to fund growth. The growth strategy in each of the product categories necessitates further expansion upstream and downstream, requiring capital investment and management attention in order to realize its full value.

Intangible assets, operating assets and cash positions remained relatively the same as of 31 December 2016 and 30 June 2017. Total assets slightly increased from US$2,283 million to US$2,303 million. Total liabilities slightly decreased from US$364 million to US$350 million. As a result, the carrying value before estimated net cash free/debt free adjustments slightly improved from US$1,920 million to US$1,953 million. The estimated carrying value after estimated net cash free/debt free adjustment remained relatively stable as of 31 December 2016 of US$1,710 million and 30 June 2017 of US$1,711 million.

As stated in the Letter from the Board in the Circular, in August 2017, the Company formed a joint venture with South Ocean to combine the operations and resources of the Company’s sweaters 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 (“Cobalt Fashion”), 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 businesses. 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 was completed on 30 September 2017, the financial metrics in the table above do not reflect the contribution from South Ocean’s business, but reflect 100% ownership of the financials of the sweaters vertical prior to the joint venture formation. We have assumed that the formation of the joint venture – Cobalt Fashion would not materially affect the business operations and performance of the Company’s sweaters vertical.

As stated in the Letter from the Board in the Circular, other than Cobalt Fashion, no other assets or shares subject to the Strategic Divestment have been acquired in the past 12 months.

3. Reasons for and benefits of the Strategic Divestment

As stated in the Letter from the Board in the Circular, it is considered that the Strategic Divestment would be beneficial for the Company and the Shareholders for the following reasons:

(a) Simplified organization with more agility

The Strategic Divestment will allow the Company to set the foundation for a more simplified organization 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 organization all focused on the same strategic direction.

(b) Focus on core competencies for the future

As stated in the Letter from the Board in the Circular, as part of its Three-Year Plan, the Group has determined that the Services Segment would form the core part of the digitalized 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 the 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.

(c) Strategic Divestment at an attractive Consideration

As stated in the Letter from the Board in the Circular, the Consideration of US$1,100 million (equivalent to approximately HK$8,536 million) on a cash free/debt free basis, implies a valuation multiple of 14.7x enterprise value (the "EV") to the Target Business' operating profit (earnings before interest and tax (the "EBIT")) 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 experiencing a decline in turnover and operating under margin pressure and declining profitability due to significant change in market conditions for the Target Business, and would require significant working capital and capital expenditures to fund growth, the Directors believe that the Consideration is attractive to the Company and its Shareholders.

(d) Benefit to shareholders – the proposed Special Dividend

As stated in the Letter from the Board in the Circular, the Shareholders expect to benefit from the Strategic Divestment with: (i) substantial and immediate cash realization 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 (equivalent to approximately HK$4,035 million) or dividends per Share of approximately US$0.0614 (equivalent to approximately HK$0.476 per Share), 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. The Special Dividend would be equivalent to more than double the total annual dividend of HK$0.23 per share paid in 2016.

(e) Enhance financial flexibility and further strengthen capital structure

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

Based on the above reasons and having considered all of the relevant factors, the Executive Directors have considered 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. Taking into account the principal reasons, factors and assumptions as set out above, we have no reason to doubt the commercial rationale of the Strategic Divestment.

4. Principal terms and conditions of the Strategic Divestment

4.1 Consideration

As set out in the Letter from the Board in the Circular, the Consideration under the Sale and Purchase Agreement shall be US$1,100 million (equivalent to approximately HK$8,536 million) payable at Closing, subject to customary Closing 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 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 is to be received in cash at the completion date and any adjustment amount is to be received and paid within 30 days of finalization of the closing accounts.

As stated in the Letter from the Board in the Circular, 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.

4.2 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-Completion Reorganization Steps 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

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

4.3 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.

5. Basis and analysis of the Consideration

In assessing whether the terms of the Strategic Divestment are fair and reasonable, we have conducted trading comparable company analyses on the Consideration and analyzed both the EV to EBIT ratio (the "EV/EBIT Multiple(s)") and price to earnings ratio (the "P/E Ratio") of the trading comparable companies.

We recognize that the carrying value of the Target Business is on cash free/debt free basis and may be different from the capital structure of the comparable companies. Taking into account the differences in the business model and capital structure of the Target Business and the comparable companies, we deem that the EV/EBIT Multiples would better reflect the underlying profitability of the business and hence best suited for the purpose of the analysis, due to the following:

(i) the selected comparable companies set out below are generally asset heavy with its owned manufacturing capabilities and hence, require significantly more maintenance and growth capital expenditure as well as the associated depreciation expenses whereas Target Business is less asset heavy with no significant investment in fixed assets and incurrence of depreciation expenses;

(ii) the Company had incurred significant amortization expenses in intangible assets each year as a result of their various acquisitions in the past, which is not quite the case of the selected comparable companies; and

(iii) from a capital structure perspective, the EV/EBIT Multiple is also a good measure as they are capital structure neutral.

Nevertheless, we have also performed analysis on the P/E Ratio since P/E Ratio is commonly used as benchmarks to assess the financial performance of a company and P/E Ratio of comparable companies are readily available in public domain.

We have not considered the price-to-book ratio given the listed trading comparable companies set out below operate in a more asset-heavy business model as compared to the Target Business. In addition, the Target Business has significant intangible asset, primarily as a result of its past acquisitions.

Comparable companies analysis

The Target Business is engaged in three product verticals, namely, sweaters, furniture and beauty, to consolidate some of the trading businesses of the Company in specific product areas. The Target Business is acting as a principal supplier to provide fully developed market-ready products to customers based on their needs and brand images. It has a unique business model to trade with customers as a principal to provide product design and development, factory sourcing and manufacturing control and other value-added services. As a principal trader, the Target Business generally utilises the factory facilities of its vendor base in producing and delivering such products, and it has no brand ownership or retailing business.

Given the unique nature of the Target Business, we have not been able to identify any listed company with business model and product coverage that are identical to the Target Business. We have however used the following selection criteria to screen the relevant comparable companies in each of the three product segments of the Target Business:

(i) listed companies which are principally engaged in the fashion, furniture and beauty industries respectively with products which are broadly similar or relevant to the three products segment of the Target Business; and

(ii) listed companies with business model and activities broadly similar to the Target Business.

It should however be noted that the selected comparable publicly listed companies referred to below are generally engaged in manufacturing activities on an OEM basis with scalable manufacturing capabilities under an asset-heavy model, which is different from the Target Business. In selecting comparable companies, we note that certain companies have significant retail operations or brand ownership, which differ from the Target Business, and while certain companies are engaged in products similar to one of the three product categories of the Target Business, they are also engaged in other business segments that are dissimilar to the Target Business.

In accordance with our selection criteria above, we have, on our best knowledge and effort identified the following list of trading comparable companies (the "Comparable Companies"). The Comparable Companies listed below have been selected exhaustively based on the criteria set out above with reasonably sufficient samples for comparison purpose and which have been identified, to the best of our efforts in our research through public sources. The information of these selected Comparable Companies is being used as the key reference parameters. However, it should be noted that the business operations and prospects of the Target Business are not entirely the same as those selected Comparable Companies, therefore they may not be directly comparable.

Company	Stock code	Market capitalization(1)(4) *(USDm)*	EV(2) *(USDm)*	EV/EBIT LTM(3)	EV/EBIT 2016	P/E 2016	Sales Growth 2015 to 2016
Sweaters – OEM manufacturers and sourcing							
Yue Yuen Industrial (Holdings) Limited	551-HK	6,145	5,974	9.3x	8.8x	11.5x	0.5%
Feng Tay Enterprise Co Ltd	9910-TW	3,074	3,192	15.9x	14.8x	20.7x	4.2%
Crystal International Group Limited	2232-HK	2,735	3,285	18.9x	25.8x	22.1x	4.4%
Pacific Textiles Holdings Limited	1382-HK	1,461	1,370	11.1x	10.5x	11.3x	(10.0%)
Nameson Holdings Limited	1982-HK	789	800	14.5x	17.5x	20.3x	2.5%
Average – Sweaters – OEM manufacturers and sourcing				13.9x	15.5x	17.2x	0.3%
Median – Sweaters – OEM manufacturers and sourcing				14.5x	14.8x	20.3x	2.5%
Furniture – OEM manufacturers and sourcing							
Man Wah Holdings Limited	1999-HK	3,265	3,198	12.7x	14.6x	15.5x	7.5%
La-Z-Boy Incorporated	LZB-US	1,438	1,311	10.1x	10.1x	17.3x	2.0%
Dorel Industries Inc	DII.B-CA	774	1,226	11.0x	11.9x	NA	(3.0%)
Samson Holding Ltd	531-HK	379	314	NA	17.2x	57.8x	(0.3%)
Coaster International Co Ltd	2936-TW	79	113	9.1x	6.3x	6.8x	4.7%
Average – Furniture – OEM manufacturers and sourcing				10.7x	12.0x	24.4x	2.2%
Median – Furniture – OEM manufacturers and sourcing				10.5x	11.9x	16.4x	2.0%
Beauty – OEM manufacturers and sourcing							
PSB Industries SA	PSB-FR	199	296	10.2x	10.7x	11.3x	14.5%
Average – All				12.3x	13.5x	19.5x	2.4%
Median – All				11.0x	11.9x	16.4x	2.5%
Max – All				18.9x	25.8x	57.8x	14.5%
Min – All				9.1x	6.3x	6.8x	(10.0%)
Li & Fung Limited	494-HK	4,418	5,934	15.0x	16.6x	19.8x	(11.0%)*
Target Business		1,283	1,100	14.7x	14.1x	21.0x	(10.0%)

Source: Factset as of 14 December 2017 and financials being calendarized. Information on the Target Business is obtained from the Company.

* On a like-for-like basis (excluding Asia consumer and healthcare distribution business divested in June 2016), Li & Fung reported a sales decline of 8.3% as per the Company's 2016 annual report obtained from the Company.

Notes:

(1) Market capitalization of the respective Comparable Companies are as at 14 December 2017 from Factset.

(2) EV = Market capitalization + long term financial debt + short term financial debt – cash and cash equivalent – interest in associates – interest in joint venture + minority interest

(3) Calculated based on the respective closing share prices and the financial information of the Comparable Companies for LTM. LTM financial information of the Comparable Companies are estimated pro-rata data based on one-fourth of calendarized 2016 financials and three-fourths of calendarized 2017 broker estimates as obtained from Factset. We have not obtained from the Company, and the Company has not provided any information related to, or verified the accuracy of, the 2017 broker estimates of the Company's EBIT.

(4) Market capitalization of Target Business is calculated based on EV of US$1,100 million, adjusted for long term financial debt, short term financial debt (excluding tax liabilities), cash and cash equivalent, interest in associates, interest in joint venture and non-controlling interest based on financial information of Target Business as of 30 Jun 2017.

It should be noted that the EV/EBIT Multiples of the companies above (including the Comparable Companies and the Company), other than the Target Business, as shown in the table above were calculated based on the EV and EBIT generated from Factset and may differ from the public information published by the respective companies as a result of Factset's own adjustments and interpretations (such as adjustments for items unrelated to the ordinary course of business or other one-off items). Given that EBIT was not a reported line item in the Company's financial statements, should we apply the reported 2016 operating profit of the Company of US$380 million as the EBIT to calculate the 2016 EV/EBIT Multiple of the Company, the EV/EBIT Multiple would have been approximately 15.6x instead of approximately 16.6x as shown in the table above. Further, it should be noted that the LTM EBIT of the companies above (including the Comparable Companies and the Company) are calculated using information including 2017 broker estimates as obtained from Factset. We have not obtained from the Company, and the Company has not provided any information related to, or verified the accuracy of, the 2017 broker estimates of the Company's EBIT.

It should be noted that as the formation of joint venture Cobalt Fashion was completed on 30 September 2017, and as such the 2016 and LTM EBIT, and the 2016 profit after tax used for calculating the EV/EBIT Multiples and the P/E Ratio of the Target Business do not reflect the contribution from South Ocean's business. Considering that the 62%-owned joint venture was formed combining the operations and the resources of the Company's sweaters vertical and South Ocean's knitwear business, we believe that it is reasonable to assess the Target Business utilizing 2016 and LTM EBIT, and 2016 profit after tax of the Target Business which reflect 100% ownership of the financials of the sweaters vertical prior to the joint venture formation. Please refer to previous section for further information on the joint venture Cobalt Fashion.

Target Business vs. Comparable Companies

The following table provides a summary comparison of the EV/EBIT Multiples and the P/E Ratios of the three groups of the Comparable Companies and the Target Business.

	EV/EBIT		P/E
	LTM	**2016**	**2016**
Comparable Companies			
Range of the average of the three groups	10.2x – 13.9x	10.7x – 15.5x	11.3x – 24.4x
Range of the median of the three groups	10.2x – 14.5x	10.7x – 14.8x	11.3x – 20.3x
Comparable Companies – All			
Average	12.3x	13.5x	19.5x
Median	11.0x	11.9x	16.4x
Range	9.1x – 18.9x	6.3x – 25.8x	6.8x – 57.8x
Target Business	**14.7x**	**14.1x**	**21.0x**

We note that the average EV/EBIT Multiples of the three groups of the Comparable Companies are within a reasonable range, being 10.2x to 13.9x for LTM and 10.7x to 15.5x for 2016 while the median EV/EBIT Multiples of these three groups are also within a reasonable range, being 10.2x to 14.5x for LTM and 10.7x to 14.8x for 2016.

The LTM and 2016 EV/EBIT Multiples of 14.7x and 14.1x respectively for the Target Business are above the LTM and 2016 average value of 12.3x and 13.5x respectively and are also higher than the LTM and 2016 median of 11.0x and 11.9x respectively of the EV/EBIT Multiples as traded by the Comparable Companies. In addition, they are within the ranges of the EV/EBIT Multiple for the Comparable Companies from 9.1x to 18.9x for LTM and 6.3x to 25.8x for 2016.

We also note that the average P/E Ratio of the three groups of the Comparable Companies are in a wider range, being 11.3x to 24.4x for 2016 while the median P/E Ratio of these three groups are also in a wider range, being 11.3x to 20.3x for 2016.

The 2016 P/E Ratio of 21.0x for the Target Business is higher than the 2016 average value of 19.5x and is significantly higher than the 2016 median of 16.4x of the P/E Ratio as traded by the Comparable Companies. In addition, they are within the ranges of the P/E Ratio for the Comparable Companies from 6.8x to 57.8x for 2016.

Meanwhile, we note that the average and median sales growth of the Comparable Companies is around 2.4% and 2.5%, respectively, as compared to a negative sales growth of the Target Business of approximately 10.0% and of the Company of approximately 8.3% (the reported sales decline of 11% include Asia consumer and healthcare distribution business divested in June 2016). The negative sales growth of the Target Business of approximately 10.0% is at the low end of the range of the average sales growth for the Comparable Companies.

Target Business vs. the Company as a Whole

The implied EV/EBIT Multiples of the Company for both LTM and 2016 are 15.0x and 16.6x, respectively, based on the share price of the Company as of the date of the Announcement. We note that the implied EV/EBIT Multiples of the Target Business and of the Company as a whole are generally in line with:

(i) the implied EV/EBIT Multiples of the Target Business for LTM of 14.7x, which is only slightly lower than that of the Company as a whole of 15.0x; and

(ii) the implied EV/EBIT Multiples of the Target Business for 2016 of 14.1x, which is lower than that of the Company as a whole of 16.6x.

The implied P/E Ratio of the Company for 2016 is 19.8x, based on the share price of the Company as of the date of the Announcement. We note that the implied P/E Ratio of the Target Business and of the Company as a whole are generally in line with the implied P/E Ratio of the Target Business for 2016 of 21.0x, which is slightly higher than that of the Company as a whole of 19.8x.

In this relation, we also note that given the Company itself is a listed company and historically consolidates the results of the Supply Chain Solutions business, the Logistics business, and the Products segment (including the Target Business), the trading multiples of the Company as a whole reflects the overall growth prospects, business performance, operating and financial results combining the various businesses.

For the year ended 31 December 2016, excluding the Asia consumer and healthcare distribution business, the Company experienced year on year 8.3% decline in turnover and 17.7% decline in core operating profit.

For the six months ended 30 June 2017, excluding the Asia consumer and healthcare distribution business, the Company experienced 11.9% increase in core operating profit despite 2.1% decline in turnover for the same period last year. Core operating profit increased largely due to the Services segment delivering a 29.7% increase in core operating profit during the first half of 2017, as offset by the 28.6% decline in core operating profit of the Products segment.

According to the Company's 2017 interim report, the Supply Chain Solutions business, which represents 73% of total turnover in first half of 2017, has seen growth of 33.1% in core operating profit. The Logistics business has recorded a solid growth of 19.7% increase in core operating profit during the first half of 2017. According to the Company's annual reports since 2011, the Logistics business has been recording double digit annual growth in core operating profit for each consecutive year since 2011.

The Products segment experienced turnover decline of 8.1% and core operating profit decline of 28.6% during the first half of 2017. The Target Business accounted for a major part of the turnover and the core operating profit of the Products segment.

Considering the growth in core operating profit of the Services segment and the decline in core operating profit of the Target Business, we believe that the Company as a whole, which reflects the overall growth prospects, business performance, operating and financial results combining the Supply Chain Solutions business, the Logistics business, and the Products segment (including the Target Business), could demand at higher EV/EBIT Multiples than the Target Business on a standalone basis.

Further, we also note that the share price of the Company has increased substantially since August 2017, from HK$2.80 on 15 August 2017 to HK$4.08 on the date of the Announcement (i.e. 14 December 2017). Over the past six months before the date of the Announcement, the share price of the Company has traded within the range from HK$2.78 to HK$4.24. In this regard, in addition to the implied EV/EBIT Multiples and P/E Ratio of the Company as a whole as of the date of the Announcement (14 December 2017), we have also looked at the implied EV/EBIT Multiples and P/E Ratio based on the historical volume-weighted average price ("VWAP") of the Company for the last six months immediately preceding the date of the Announcement (i.e. HK$3.48).

When comparing the implied EV/EBIT Multiple with that of the Company based on last six months VWAP up to and including the date of the Announcement, we have note that the implied EV/EBIT Multiples of the Company based on last six months VWAP for both LTM and 2016 are 13.4x and 14.8x, respectively. We have noted that:

(i) the implied EV/EBIT Multiples of the Target Business for LTM of 14.7x is higher than that of the Company of 13.4x on last six months VWAP basis; and

(ii) the implied EV/EBIT Multiples of the Target Business for 2016 of 14.1x is slightly lower than that of the Company of 14.8x on last six months VWAP basis.

When comparing the implied P/E Ratio with that of the Company based on its last six months VWAP up to and including the date of the Announcement, we have note that the implied P/E Ratio of the Company based on last six months VWAP for 2016 is 16.9x:

(i) the implied P/E Ratio of the Target Business for 2016 of 21.0x is significantly higher than that of the Company of 16.9x on last six months VWAP basis.

Transaction comparable analysis

We have searched for precedent transactions on a global basis through public sources including Mergermarket and FactSet, using the criteria below:

(i) completed transactions within 10 years prior to the announcement date of the Strategic Divestment;

(ii) public transactions involving a controlling stake/buyout with disclosed transaction value and financials;

(iii) transactions within the apparel, furniture and beauty industries with similar product coverage as the Target Business; and

(iv) transaction Enterprise Value over US$500 million.

We have looked at the precedent transactions based on the above criteria, but considered that those precedent transactions are not comparable to the proposed transaction in terms of business model and the scale of the transaction. Therefore, we have not been able to identify any transaction directly comparable for this purpose.

6. Financial effects of the Strategic Divestment on the Group

6.1 Effect on earnings

As stated in the Letter from the Board in the Circular, on the basis that:

(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 recognize 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 recognized 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 also stated in the Letter from the Board in the Circular that 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.

Further, 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. The Strategic Divestment will also trigger the realization 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 realization 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, as well as financial covenants on outstanding borrowings.

After 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 after Closing.

On the assumption that the Strategic Divestment had taken place on 31 December 2015, the profit attributable to shareholders of the Company for the year ended 31 December 2016 would decrease from approximately US$223 million to US$162 million, subject to adjustments to the deduction of the relevant transaction costs, taxes, exchange gain or loss on translation of foreign operations, audit and reassessment after Closing.

6.2 Effect on net asset value (total equity) and shareholders' equity

As stated in the Letter from the Board in the Circular, based on the audited financial statements of the Group as at 31 December 2016 (restated for the impact of adoption of HKFRS15), it is estimated that immediately after Closing, the carrying value of the net assets (total equity) of the Group will decrease by approximately US$610 million from the estimated loss from the Strategic Divestment from approximately US$3,462 million to US$2,852 million.

As stated in the Letter from the Board in the Circular, excluding primarily perpetual capital securities, the equity of the Group attributable to shareholders of the Company will decrease from US$2,305 million to US$1,695 million after the Strategic Divestment, out of which over US$1.1 billion is distributable reserves which, together with future profits earned, can be used for future dividend distributions (both normal or special dividends).

6.3 Effect on cash position

The Strategic Divestment is expected to increase the Company's cash position by approximately US$580 million (equivalent to approximately HK$4,501 million) with net effect from (i) the increase in the Company's cash position with the proceeds of US$1,100 million (equivalent to approximately HK$8,536 million) being settled in cash, subject to customary adjustments for estimated net working capital at Closing; and (ii) the decrease in the Company's cash position by the proposed Special Dividend of approximately US$520 million (equivalent to approximately HK$4,035 million).

POINTS TO NOTE

It should be noted that after Closing and subject to the fulfillment of the conditions of the Strategic Divestment, the shareholders of the Company will receive Special Dividend of approximately US$520 million (equivalent to approximately HK$4,035 million) or dividends per share of approximately US$0.0614 within two months of Closing. It should also be noted that the Special Dividend of approximately US$520 million (equivalent to approximately HK$4,035 million) represents approximately 233.2% and 208.8% of the Group's 2016 net profit attributable to Shareholders of the Company of US$223 million and total dividend declared in 2016 of US$249 million, respectively.

CONCLUSION

Taking into consideration the above principal reasons, factors and assumptions, we consider that the Strategic Divestment, though as a divestment not in the ordinary and usual course of business of the Group, are conducted on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole. We therefore, advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Strategic Divestment.

Yours faithfully,
For and on behalf of
BNP Paribas Securities (Asia) Limited
Isadora Li
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Group for the years ended 31 December 2014 (pages 118 to 215), 2015 (pages 127 to 223) and 2016 (pages 147 to 235), respectively.

The published unaudited consolidated financial statements of the Group for the six months ended 30 June 2017 are disclosed in the interim report of the Group for the six months ended 30 June 2017 (pages 51 to 82).

These financial statements can be accessed on both the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.lifung.com).

These financial statements are hereby incorporated by reference in, and form an integral part of, this circular.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company continues to expect the macro environment to remain volatile as economic and political uncertainties continue to weigh on consumer sentiment. The global retail industry will keep experiencing disruptions from e-commerce and changing consumption patterns. Headwinds from store closures will continue as retailers adjust their sales strategies. On-going promotional activities will continue to put pressure on margin on retailers. In response to the structural changes in retail, brands and retailers will continue to transform, presenting both new opportunities and challenges for the supply chain. As the trend of tighter inventory management persists, the Company's customers will continue to order in smaller batches, demanding shorter turnaround time and more frequent replenishments. The Company's range of value-added services and digital tools enable its customers to react more quickly in the new environment.

The Company anticipates that exchange rate volatilities will continue, and its total reported turnover will remain susceptible to translation impact from the potential weakness of the Euro, British pound and Asian currencies against the US dollar. The Company expects to sustain improvement in core operating profit margin in businesses the Group will continue to own after the Strategic Divestment as margin enhancement initiatives and productivity gains continue to bear fruit. In view of the volatilities in the retail market, the Company will monitor its customer base even more closely and remain prudent toward counterparty risks.

The rise of trade protectionism and geopolitical instability will heighten complexity in the global sourcing landscape and offer the Company added business opportunities. The Company's deep-rooted relationships with a wide network of vendors continue to provide a unique source of strength. This deep network gives the Company the flexibility to quickly adjust sourcing strategies when external factors present new production requirements or constraints. With support from the Company's end-to-end supply chain solutions services, its customers can rise above the current challenges and outperform the industry.

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 in building the supply chain of the future. 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 Company will also leverage the design and customers access of its Onshore Wholesale Business in Americas, Europe and Asia to offer additional services. By incorporating speed, innovation and digitalisation into its service offerings, the Company optimises its customers' supply chain with tangible economic benefits by minimising markdowns and increasing inventory turns. The Company aims to continue converting new business relationships from its strong customer pipeline, including e-commerce retailers, and increasing its wallet share among existing customers. With momentum from new customer wins and the easing of deflationary pressure on input, the Company expects top line turnover for the Supply Chain Solutions business to continue its trend of stabilisation, despite on-going inventory destocking by customers.

As for the Logistics Business, the Company anticipates that strong growth will continue as a result of robust consumption growth in Asia, expanding customer base, and further geographic expansion. The gradual freight rate recovery will benefit its global freight management business. The Company will continue to invest in the Logistics Business to capture rapidly rising demand across Asia.

As the Group continues 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. The remaining cash proceeds of approximately US$580 million from the Strategic Divestment (after payment of the Special Dividend) will further increase the Company's financial flexibility and strengthen its capital structure to fund future growth, including the US$150 million for digitalisation over the next three years.

Based on the audited financial statements of the Group as at 31 December 2016, as a result of the Strategic Divestment (excluding the payment of the Special Dividend) and subject to post-Closing adjustment to the consideration payable, the total assets, total liabilities and net assets of the Group are expected to be decreased by US$973 million, US$364 million and US$610 million respectively. The reduction of total assets of US$973 million is based on total assets of US$2,283 million minus the Consideration of US$1,100 million and estimated net adjustment 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 Strategic Divestment would result in a loss and the reporting of a total net loss attributable to shareholders in 2017, and would trigger the realisation of prior period foreign exchange losses, which could be recorded in 2018, after Closing of the Strategic Divestment. Excluding such loss, the Group's net profit attributable to shareholders from continued operations remains solid. The above accounting losses have no impact on the Company's cash flow, nor its future operational and financial performance, as well as financial covenants on outstanding borrowings. Please refer to the paragraph "5. Financial Effect of the Strategic Divestment" in this circular for more details.

3. INDEBTEDNESS STATEMENT

(A) Borrowings

At the close of business on 30 November 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately US$1,034 million as follows:

	As at 30 November 2017 *US$'000*
Current	
Bank advances for discounted bills	9,385
Short-term bank loans – unsecured	232,472
Bank overdrafts – unsecured[1]	39,265
Non-current	
Long-term notes – unsecured	752,517
Total	1,033,639

1. The Group has been using multiple cash-pooling arrangements in certain countries to improve liquidity and minimise interest expense. Cash pooling balances are reported based on the net amounts at day end. Bank overdrafts balance disclosed above includes net total of the overdrafts and cash balances under the multiple cash-pooling arrangements.

(B) Contingent liabilities

	As at 30 November 2017 *US$'000*
Guarantees in respect of banking facilities granted to an associated company	750

Save as disclosed above and apart from intra-group liabilities, at the close of business on 30 November 2017, the Group did not have any loan capital or debt securities issued and outstanding and authorised or otherwise created but unissued, liabilities under acceptances (other than normal trade bills), acceptance credits, finance leases, hire purchase commitments, borrowings or other similar indebtedness, bank overdrafts, bank loans, mortgages, pledges, debentures, charges, contingent liabilities or guarantees.

4. WORKING CAPITAL STATEMENT

As at the Latest Practicable Date, taking into account the effects of the Strategic Divestment and the present financial resources available to the Group, including the internally generated funds, and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2016, being the date to which the latest published audited financial results of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

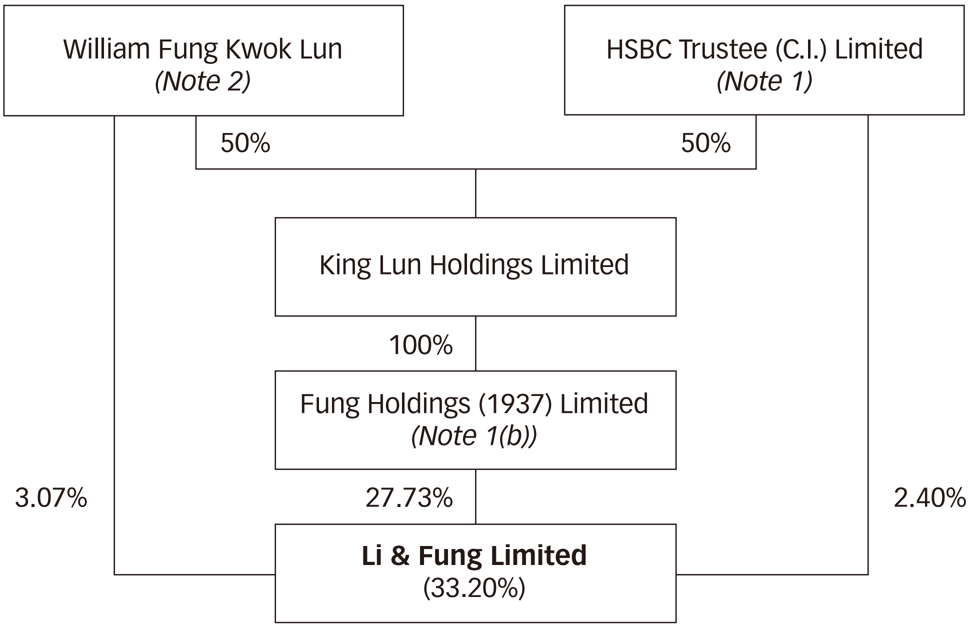
2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at the Latest Practicable Date, the following Directors and chief executive of the Company had interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; (b) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have under such provisions of the SFO); or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code; or (d) pursuant to section 352 of the SFO, to be entered in the register referred to therein:

(A) Long Position in Shares and underlying Shares of the Company

	Number of Shares					
Name of Director	Trust/ Corporate interest	Personal interest	Family interest	Equity derivatives (Share options)	Total	Percentage of issued share capital *(Note 7)*
Victor Fung Kwok King	2,551,966,180 *(Note 1)*	2,814,444	N/A	N/A	2,554,780,624	30.16%
William Fung Kwok Lun	2,426,505,472 *(Note 2(b))*	177,120,260	108,800 *(Note 2(a))*	5,006,000 *(Note 6)*	2,608,740,532	30.80%
Spencer Theodore Fung	2,553,379,180 *(Notes 1&3)*	1,948,000	N/A	9,046,000 *(Note 6)*	2,564,373,180	30.28%
Marc Robert Compagnon	13,472,580 *(Note 4)*	1,360,200	14,000	8,630,000 *(Note 6)*	23,476,780	0.28%
Martin Tang Yue Nien	60,000 *(Note 5)*	60,000	N/A	N/A	120,000	0.00%

The following simplified chart illustrates the deemed interests of Victor Fung Kwok King and Spencer Theodore Fung (under *Note 1* below) and the interest of William Fung Kwok Lun (under *Note 2* below):



NOTES:

As at the Latest Practicable Date,

(1) Victor Fung Kwok King and Spencer Theodore Fung (son of Victor Fung Kwok King and as his family member) were each deemed to have interests in 2,551,966,180 Shares held in the following manner:

(a) 203,012,308 Shares were indirectly held by HSBC Trustee (C.I.) Limited ("HSBC Trustee") through its wholly-owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King (the "Trust"); and

(b) 2,195,727,908 Shares were directly held by FH 1937, a wholly-owned subsidiary of King Lun Holdings Limited ("King Lun"), and 153,225,964 Shares were indirectly held by FH 1937 through its wholly-owned subsidiary, Fung Distribution International Limited. King Lun is a company owned 50% by HSBC Trustee as trustee of the Trust and 50% by William Fung Kwok Lun.

(2) (a) Apart from 108,800 Shares, the spouse of William Fung Kwok Lun held US$2,000,000 of the perpetual subordinated capital securities of the Company.

(b) 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. 2,348,953,872 Shares were indirectly held by King Lun as mentioned in *Note 1(b)* above. 1,143,000 Shares represented the interests in award shares granted by the Company and remained unvested.

(3) Out of 2,553,379,180 Shares, 1,413,000 Shares represented the interests in award shares granted by the Company and remained unvested. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in *Note 1* above.

(4) Out of 13,472,580 Shares, 1,182,800 Shares represented the interests in award shares granted by the Company and remained unvested. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Marc Robert Compagnon.

(5) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.

(6) These interests represented the interests in underlying shares in respect of share options granted by the Company to these Directors as beneficial owners.

(7) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at the Latest Practicable Date.

(B) Short positions in Shares and underlying Shares of the Company

As at the Latest Practicable Date, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Directorships in substantial shareholders of the Company

Victor Fung Kwok King and William Fung Kwok Lun are directors of FH 1937 and King Lun Holdings Limited, both of whom are substantial shareholders of the Company within the meaning of Part XV of the SFO.

Save as disclosed above and as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

Under a service contract dated 2 June 1992 between the Company and William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and William Fung Kwok Lun, William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, LF Properties Limited and Li & Fung (B.V.I.) Limited, in each case for an initial period of five years from 1 April 1992 and thereafter unless terminated by not less than 12 calendar months' notice in writing expiring at the end of such initial period or any subsequent month.

Save as disclosed above and as at the Latest Practicable Date, none of the Directors has entered or intends to enter into a service contract with any member of the Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN ASSETS, CONTRACT OR ARRANGEMENT

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transaction" and *Note 34* "Related Party Transactions" to the financial statements in the 2016 Annual Report of the Company and the announcement of the Company dated 7 June 2017 in relation to the buying agency agreement with certain subsidiaries of Trinity Limited and the announcement of the Company dated 17 November 2017 in relation to the renewals of the master agreement for distribution and sale of goods and the master agreement for logistics related services with FH 1937 Group, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

None of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Company have been made up.

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in a business which is considered to compete or be likely to compete, directly or indirectly, with the business of the Group which would otherwise be required to be disclosed under the Listing Rules.

6. MATERIAL CONTRACT

Except for the Sale and Purchase Agreement, no contract that is or may be material to the Group (being a contract not entered into in the ordinary course of business) was entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATION AND CONSENT OF EXPERTS

The following is the name and the qualifications of the professional adviser who has given opinion or advice which is contained or referred to in this circular:

Name	Qualification
BNP Paribas Securities (Asia) Limited	a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser had the following relationships with the Company and the Purchaser:

(a) the Independent Financial Adviser and entities which control or are controlled by or under the same control as the Independent Financial Adviser (together, the "BNP Paribas Group") beneficially owned 19,456 shares of the Company, representing approximately 0.0002% of the issued share capital of the Company; and

(b) BNP Paribas Group beneficially owned 52,000 shares of Legend Holdings Corporation, the ultimate holding shareholder of USEL, representing approximately 0.01% of its issued share capital.

Save as disclosed above, as at the Latest Practicable Date, the Independent Financial Adviser did not have any beneficial interest in the share capital of any member of the Group nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2016, being the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

The Independent Financial Adviser has given and has not withdrawn its written letter of consent to the issue of this circular with: (i) reference to its name included; and (ii) its statement dated 9 January 2018 (as set out on pages 34 to 58 of and made for incorporation in this circular) included in the form and context in which it is included.

9. GENERAL

(a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(b) The head office of the Company is at 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

(c) The principal share registrar of the Company is Estera Management (Bermuda) Limited at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, and its branch share registrar and the transfer office of the Company is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Terry Wan Mei Chow, who is a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(e) The English text of this circular and the enclosed form of proxy shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including 31 January 2018:

(a) the memorandum of association of the Company and Bye-laws;

(b) the annual reports of the Company for the financial years ended 31 December 2015 and 2016;

(c) the interim report of the Company for the six months ended 30 June 2017;

(d) the Sale and Purchase Agreement, being the material contract referred to in the section headed "6. Material Contract" in this Appendix;

(e) the agreed form of the Services Agreement, Master Property Agreement and Ancillary Sourcing, Logistics and Trading Services Agreement;

(f) the letter of recommendation from the Independent Board Committee to the Independent Shareholders dated 9 January 2018, the full text of which is set out on pages 32 to 33 of this circular;

(g) the letter of recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders dated 9 January 2018, the full text of which is set out on pages 34 to 58 of this circular;

(h) the written consent of the Independent Financial Adviser referred to under the section headed "8. Qualification and Consent of Experts" in this Appendix;

(i) the service contracts mentioned in the paragraph headed "3. Directors' Service Contracts" in this Appendix; and

(j) this circular.

LI & FUNG LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 494

NOTICE IS HEREBY GIVEN that a special general meeting of Li & Fung Limited (the "Company") will be held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I & II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong, on Wednesday, 31 January 2018 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

"THAT the Strategic Divestment, as well as all agreements in relation to and the transactions contemplated under the Strategic Divestment, and/or set out in the circular to the shareholders of the Company dated 9 January 2018 (the "circular"), be and are hereby approved, confirmed, authorised and ratified, and the directors of the Company be and are hereby authorised to do all such acts and things and execute such documents on behalf of the Company as they may in their absolute discretion necessary, desirable or expedient to implement and/or give effect to the Strategic Divestment, as well as all agreements in relation to and the transactions contemplated under the Strategic Divestment, and/or set out in the circular, with such changes as the Directors may in their absolute discretion consider necessary, desirable or expedient."

By Order of the Board
Terry Wan Mei Chow
Company Secretary

Hong Kong, 9 January 2018

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.

(2) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting. The form of proxy is published on the website of HKExnews at *www.hkexnews.hk* and can also be downloaded from the Company's website at *www.lifung.com*.

(3) In order to determine the right to attend the SGM, the register of members of the Company will be closed from Monday, 29 January 2018 to Wednesday, 31 January 2018 (both days inclusive), during which no transfer of shares can be registered. Members who are entitled to attend and vote at the SGM are those whose names appear on the register of members of the Company on Monday, 29 January 2018. In order to be eligible to attend the SGM, 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 pm on Friday, 26 January 2018.