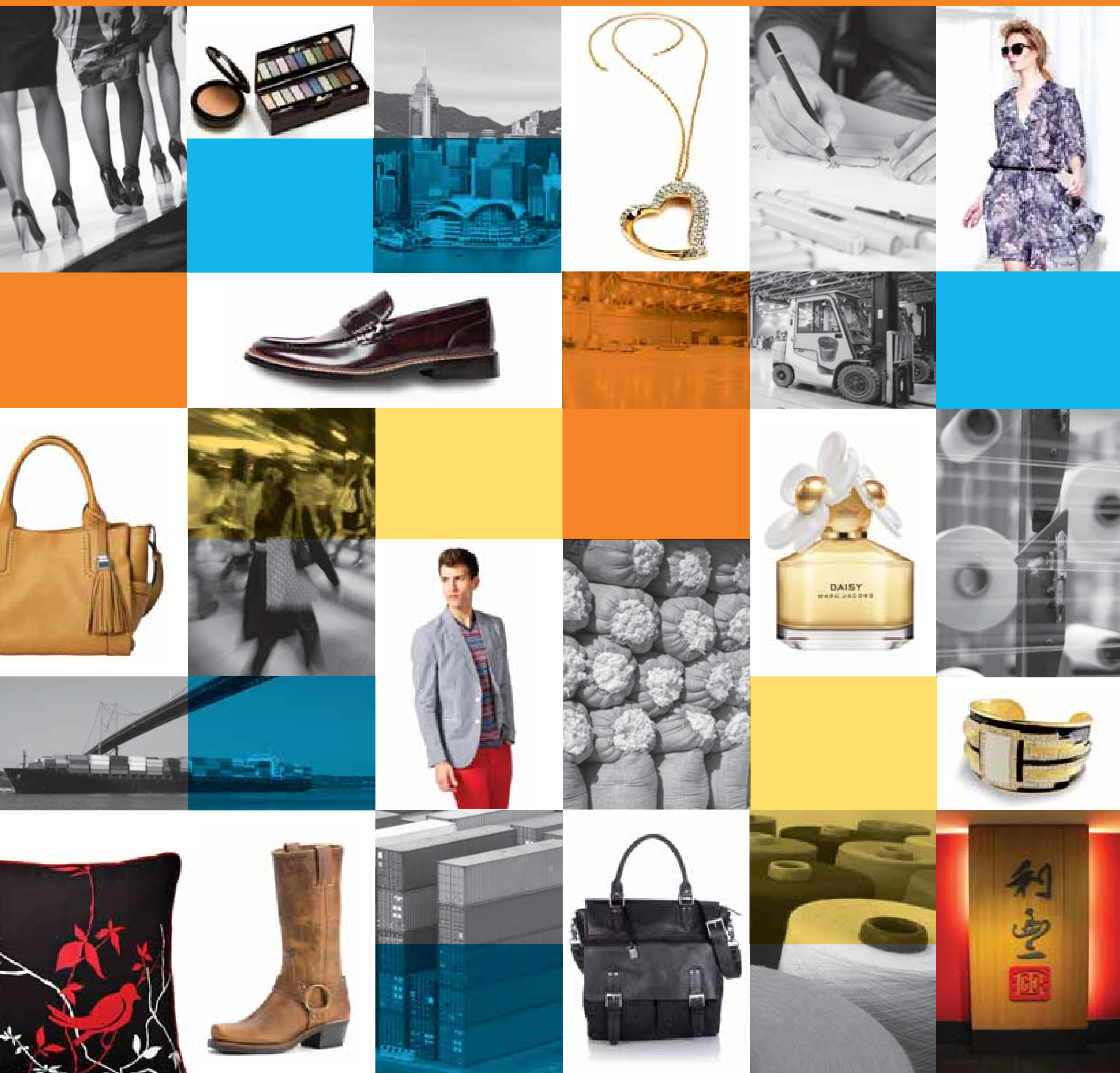
LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 494

ANNUAL REPORT 2012



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CORPORATE INFORMATION

NON-EXECUTIVE DIRECTORS

Victor FUNG Kwok King *(Honorary Chairman)*
Paul Edward SELWAY-SWIFT*
Allan WONG Chi Yun*
Franklin Warren McFARLAN*
Martin TANG Yue Nien*
Benedict CHANG Yew Teck
FU Yuning*

* *Independent Non-executive Directors*

GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

COMPANY SECRETARY

Terry WAN Mei Chow

LEGAL ADVISORS

Mayer Brown JSM
16th–19th Floors, Prince's Building
10 Chater Road, Central, Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

HONG KONG OFFICE

11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

EXECUTIVE DIRECTORS

William FUNG Kwok Lun *(Group Chairman)*
Bruce Philip ROCKOWITZ *(Group President & Chief Executive Officer)*
Spencer Theodore FUNG *(Group Chief Operating Officer)*

CHIEF FINANCIAL OFFICER

Edward LAM Sung Lai

PRINCIPAL BANKERS

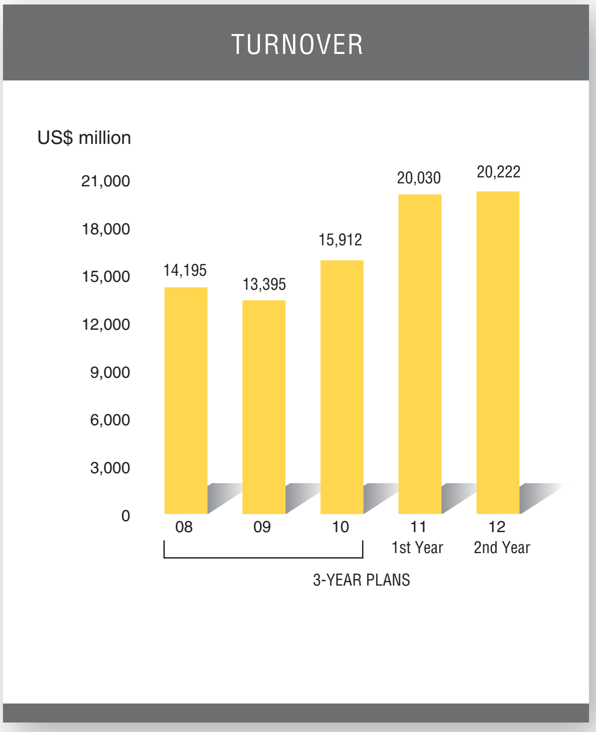
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
JPMorgan Chase Bank, N.A.
Standard Chartered Bank (Hong Kong) Limited

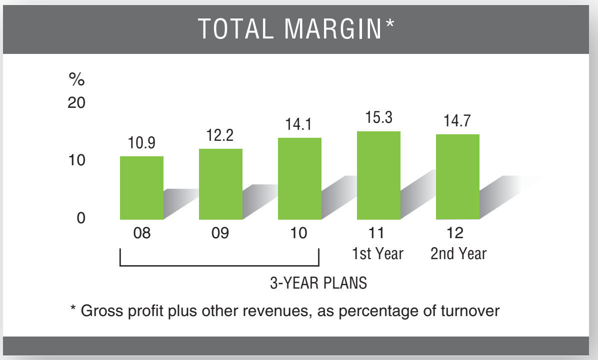
AUDITOR

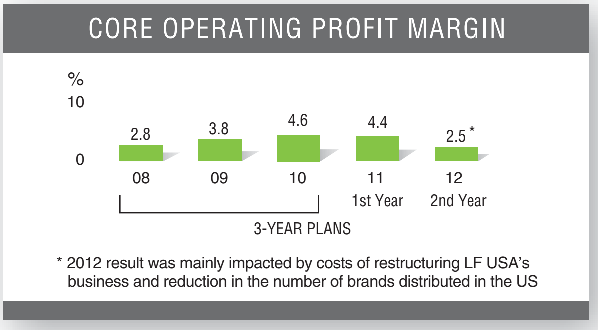
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, Central
Hong Kong

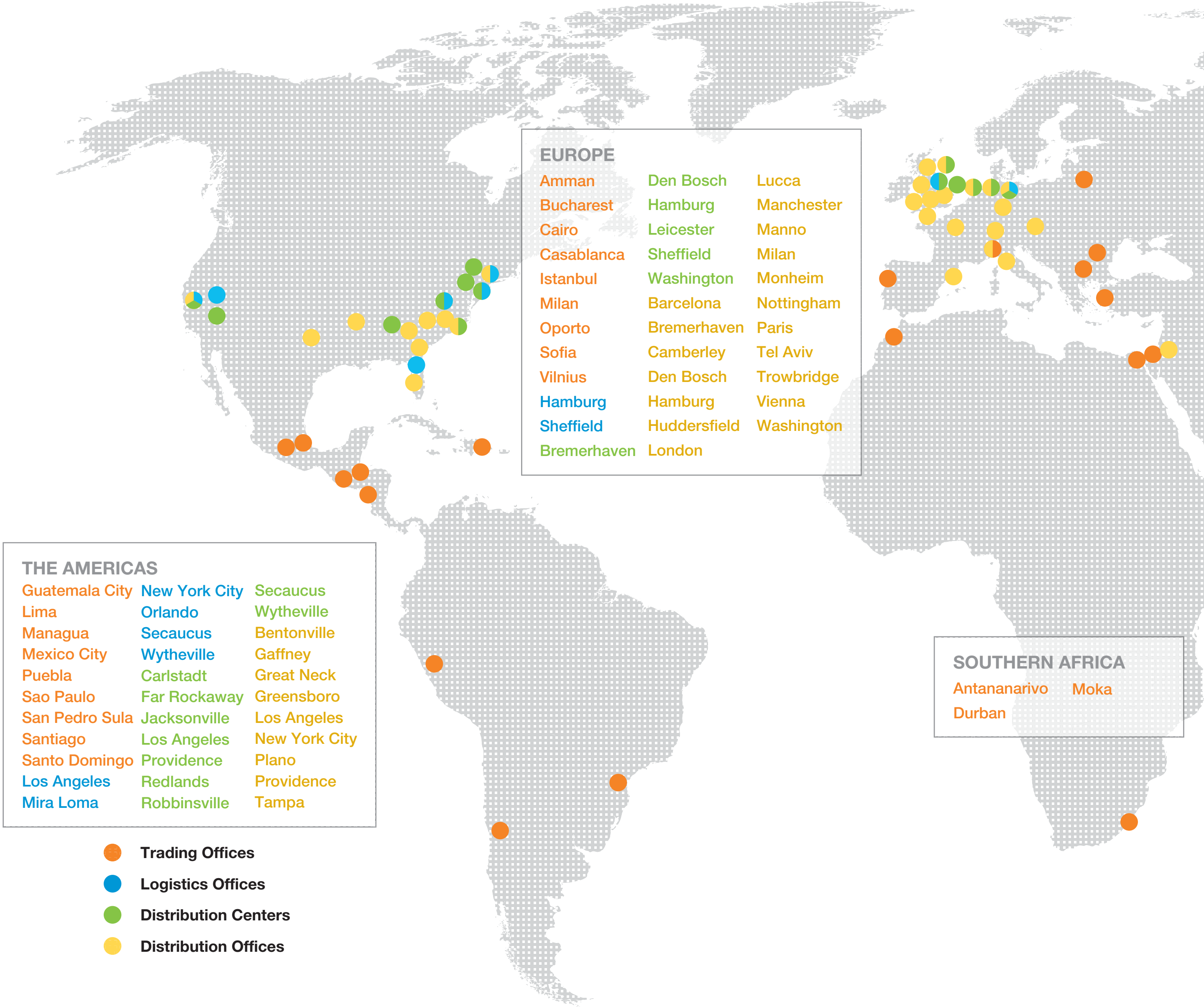
KEY FINANCIAL HIGHLIGHTS

(US$'000)	**2012**	2011	**Change**
Turnover	**20,221,806**	20,030,271	**+1%**
Total Margin	**2,963,795**	3,074,204	**-4%**
As percentage of Turnover	**14.7%**	15.3%	
Core Operating Profit	**511,173**	882,056	**-42%**
As percentage of Turnover	**2.5%**	4.4%	
Profit attributable to shareholders of the Company	**617,416**	681,229	**-9%**
As percentage of Turnover	**3.1%**	3.4%	
Earnings per Share – Basic	**58.1 HK cents**	65.8 HK cents	**-12%**
(equivalent to)	**7.45 US cents**	8.43 US cents	
Dividend per Share			
– Final	**16 HK cents**	34 HK cents	**-53%**
– Full year	**31 HK cents**	53 HK cents	**-42%**
Shareholders' Funds	**4,629,799**	3,933,793	
Net Assets per Share	**US$0.62**	US$0.49	








EUROPE
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Bremerhaven
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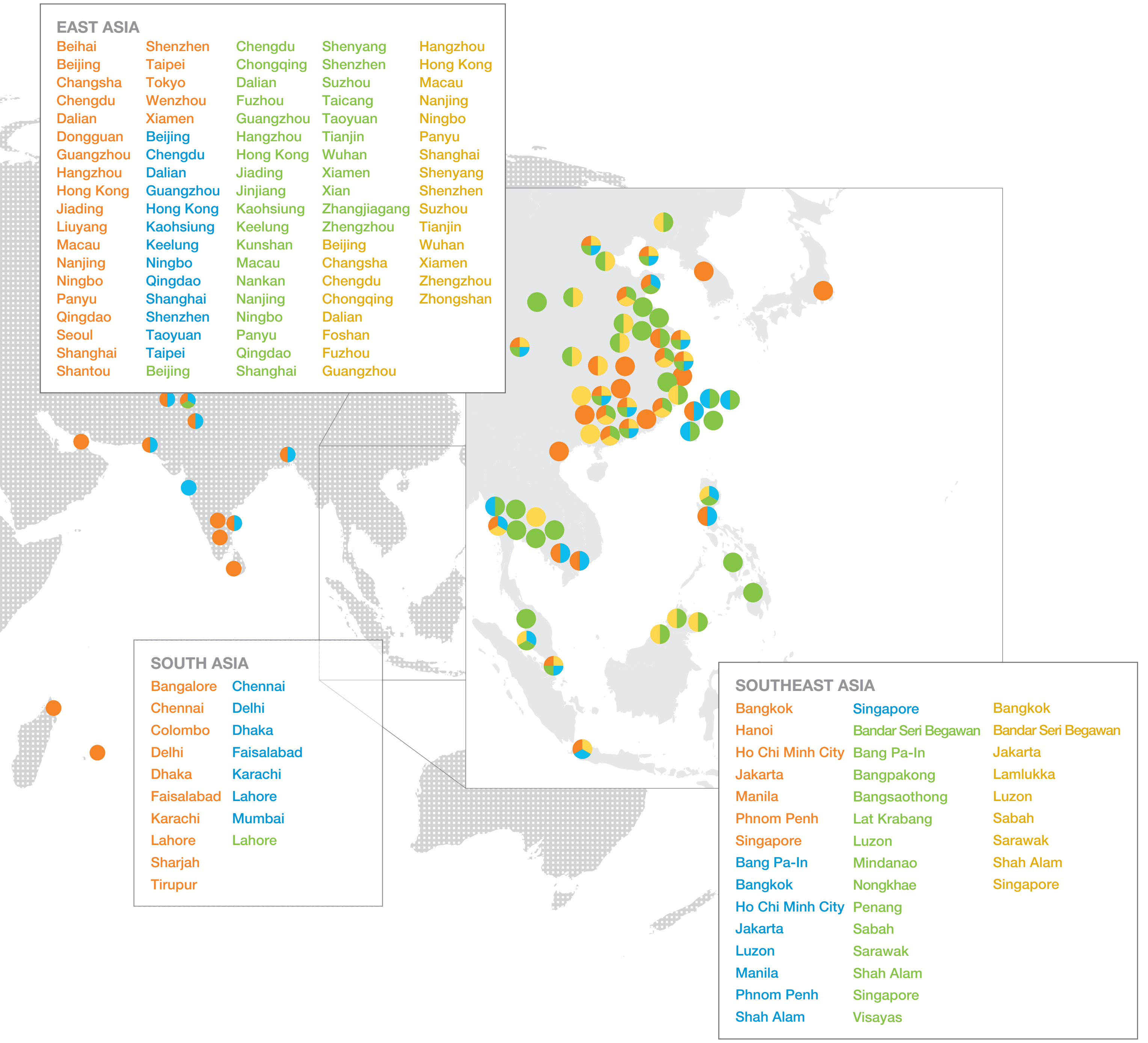
Hamburg
Leicester
Sheffield
Washington
Barcelona
Bremerhaven
Camberley
Den Bosch
Hamburg
Huddersfield
London
Lucca
Manchester
Manno
Milan
Monheim
Nottingham
Paris
Tel Aviv
Trowbridge
Vienna
Washington
THE AMERICAS
Guatemala City
Lima
Managua
Mexico City
Puebla
Sao Paulo
San Pedro Sula
Santiago
Santo Domingo
Los Angeles
Mira Loma
New York City
Orlando
Secaucus
Wytheville
Carlstadt
Far Rockaway
Jacksonville
Los Angeles
Providence
Redlands
Robbinsville
Secaucus
Wytheville
Bentonville
Gaffney
Great Neck
Greensboro
Los Angeles
New York City
Plano
Providence
Tampa
SOUTHERN AFRICA
Antananarivo
Durban
Moka
Trading Offices
Logistics Offices
Distribution Centers
Distribution Offices



Li & Fung Limited, the Hong Kong-headquartered multinational group, is recognized as the world's leader in consumer goods design, development, sourcing and distribution. It manages the supply chain for retailers and brands worldwide with over 300 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia. Through its three interconnected Business Networks – Trading, Logistics and Distribution – Li & Fung offers a spectrum of services that covers the entire supply chain end-to-end.

CHAIRMAN'S STATEMENT

William Fung
Group Chairman

This is my first full year Annual Report to shareholders since assuming the Chairmanship in mid May 2012. Before launching into a discussion of the year's results and prospects, I would like to first put the year 2012 in perspective of our current Three-Year Plan (2011–2013).

The current Three-Year Plan was formulated at the end of 2010. At that time, we had just emerged, or so we thought, from the Financial Tsunami of 2008–9, one of the worst global recessions in recent history. Our assumptions for this plan included assumptions that the European Markets and currency would begin to recover like the rest of the world and that the US economy, going into the 2012 Presidential Election Year will be strong. We therefore set very ambitious targets to be met by the end of the plan in 2013. Also, this was the time when we planned to re-organize our LF USA business, melding nearly 20 acquisitions that created this entity, re-locate the production function to Asia and create a newer and more competitive business model for our whole Distribution business.

As it turned out, the European and US markets did not recover nor grow to the extent that we had hoped and we continued to face considerable head winds in these two most important markets. Our own execution of the operational changes in LF USA and management of the costs involved were disappointing. We had to work very hard to try and overcome these challenges in 2012.

Our core trading business has been only marginally impacted by the unfavorable and uncertain macroeconomic environment in Europe. The Asia based logistics business remains strong and growing rapidly and benefitted from cross selling activities with the trading customers of the Group. The Distribution business in Asia is strong and also growing whereas our European Distribution business was basically flat for the year. However, the biggest part of our Distribution business, our USA Distribution business, suffered from decreased margins and mounting operating and re-structuring costs. This has led the Group to issue a profit alert on a substantial fall in core operating profit at the end of the year. The management change and restructuring in LF USA is a firm and direct response to the business challenges on that side of the world.

PERFORMANCE

In 2012, Group turnover increased by 1% to US$20,222 million. However, core operating profit was US$511 million, a decrease of 42% compared to 2011. Profit attributable to shareholders was US$617 million, a decrease of 9% compared to last year (US$681 million). Earnings per share were 58.1 HK cents (equivalent to 7.45 US cents) compared with 65.8 HK cents (equivalent to 8.43 US cents) for 2011.

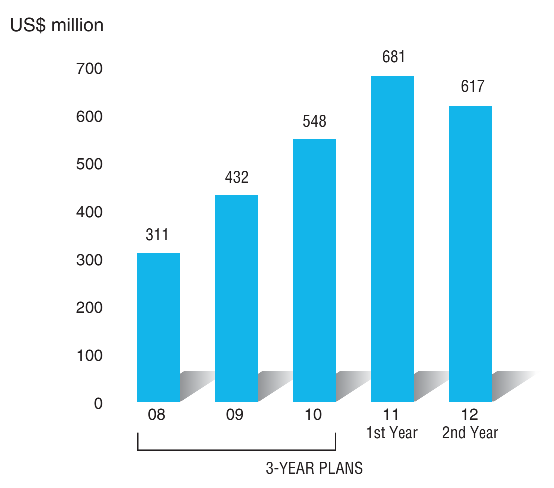
The Board of Directors has resolved to declare a dividend of 16 HK cents (equivalent to 2.1 US cents) per share (2011: 34 HK cents – equivalent to 4.4 US cents), in line with the decrease in core operating profit.

BUSINESS MODEL & STRATEGIES

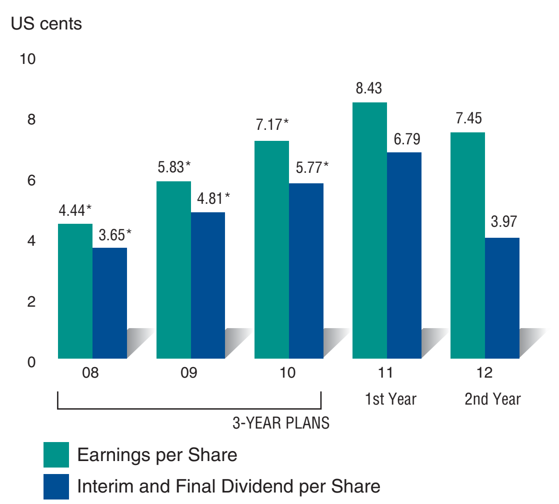
Li & Fung provides comprehensive, sophisticated global supply chain management solutions for its customers. The Group pursues business strategies that drive long-term results according to its Three-Year Plan targets.

We adhere to a business strategy comprising both organic growth and growth via acquisitions in strategic areas that has helped make us an industry leader. We emphasize one more heavily than the other depending on opportunity and on what is appropriate for the prevailing business environment and market conditions.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS



EARNINGS PER SHARE | DIVIDENDS PER SHARE

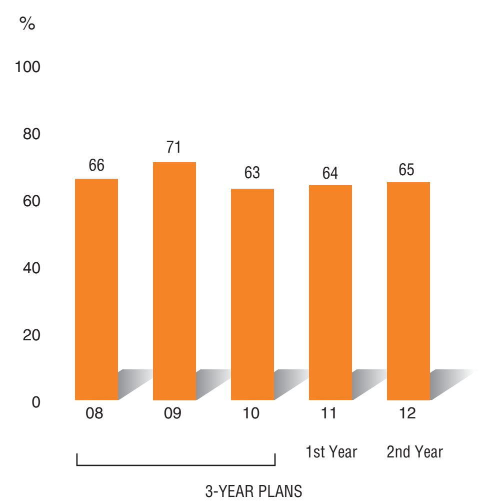


* Adjusted for the effect of Share Subdivision in May 2011

In 2011, Li & Fung reorganized its businesses into three distinct Business Networks: Trading, Logistics and Distribution. This has opened the door to significant growth opportunities from cross selling between the Networks. At the same time, we continue to pursue an asset-light strategy and refrain from owning factories, offices and distribution centers. Renting rather than owning whenever we can.

Recent developments in Asia's consumer markets present high potential for long-term growth, and, in its present Three-Year Plan, Li & Fung kick-started its Asian distribution strategy by acquiring IDS, giving us a distribution platform in Asia, LF Asia, and a largely Asia-based Logistics Network, LF Logistics. This has allowed the Group to not only source from Asia, but also to sell to Asia.

DIVIDEND PAYOUT*



* As percentage of core operating profit

MARKET & BUSINESS

The trading business of the Group was resilient in 2012, accounting for approximately 70% of the Group's turnover and showed a modest value increase over 2011 in a tough trading environment. In its core sourcing business, the Group remains the dominant player in the global sourcing arena.

Nevertheless in recent years, we have been pressured by rising labor and material costs. We are moving our low-cost sourcing inland within China as well as outward toward emerging nations like Vietnam. Approximately 60% of our production by value remains in China, but we will continue to identify manufacturers in other markets across Asia and around the world who can meet our needs. At the same time, the Group remains, as always, firmly committed to safety and compliance.

In the mean time, there is also tremendous demand for quick response manufacturing and manufacturing within high tariff countries. The Group is still expanding its sourcing network and exploring production in Latin America.

The Group's primarily Asian based logistics business, LF Logistics, performed very well and benefited from cross selling to Li & Fung customers. While still small compared to the other two Networks, LF Logistics' contribution increased significantly in 2012.

In our Distribution Network businesses, the Group dedicated considerable efforts to restructuring LF USA, a process targeted for completion by 2013. This will remain the key management challenge for the Distribution group. In Europe, we continued developing LF Europe's Distribution business despite the uncertain environment in 2012. Given the lessons learnt from the LF USA experience, LF Europe's organization is operating smoothly and has turned a creditable performance for the year. We feel that when the European market stabilizes, LF Europe will generate sustainable medium- to long-term value for shareholders. Under stronger, more focused management and favorable market conditions, the LF Asia business acquired in the IDS merger of 2010 has performed very well in 2012. The existing Asian business is primarily in the Food, Health, Beauty

& Cosmetics areas and we moved to expand the traditional Li & Fung verticals of Fashion & Home with an acquisition and a number of licensing agreements during the year.

The Group continues to leverage its two-pronged strategy of both organic and acquisition growth to drive business growth, particularly at times when the economy has placed constraints on organic growth, as it has over the past several years. This will remain our strategy moving forward.

FINANCES

The Group pursues a very aggressive strategy in its trading activities, we adopt a conservative strategy in the financing of the Group's activities. The Group's overall long term target is to ensure that we retain an investment grade rating. The normal working capital of the group is well funded by its own cash flow generated and short term bank facilities. When we have opportunities for large acquisitions, then we will seek funds from outside via share placements or long-term debt. During the year 2012, the Group placed 210,000,000 new shares for an equity capital increase of about US$500 million in March and issued another US$500 million of perpetual capital securities in November. As a result, the Group has adequate financial resources to fund existing operations as well as any anticipated acquisition needs for 2013.

SUSTAINABILITY

We continue to implement our comprehensive Sustainability Strategy in 2012. Our strategy is to improve social, environmental and health & safety conditions in our supply chain, reduce the environmental footprint of our own operations and contribute to the sustainable development of the diverse communities where we operate. This year we deepened our engagement with our suppliers, customers and industry partners on supply chain sustainability. With the launch of our revised *Code of Conduct for Suppliers* and its companion *Supplier Compliance Manual*, we enhanced our internal capacity to implement our standards by providing expanded training and guidance to our suppliers. We also worked with key customers to implement targeted programs on topics ranging from working conditions and environmental efficiency to lean manufacturing and safety with our strategic suppliers.

While we progress on this sustainability journey, we have also seen the need for more concerted efforts and closer multi-stakeholder collaboration to raise standards. Going forward we are continuing to increase and to advocate for sourcing with suppliers that share our commitment to continually improving their sustainability performance and to provide focused resources to support this ongoing transformation.

PROSPECTS

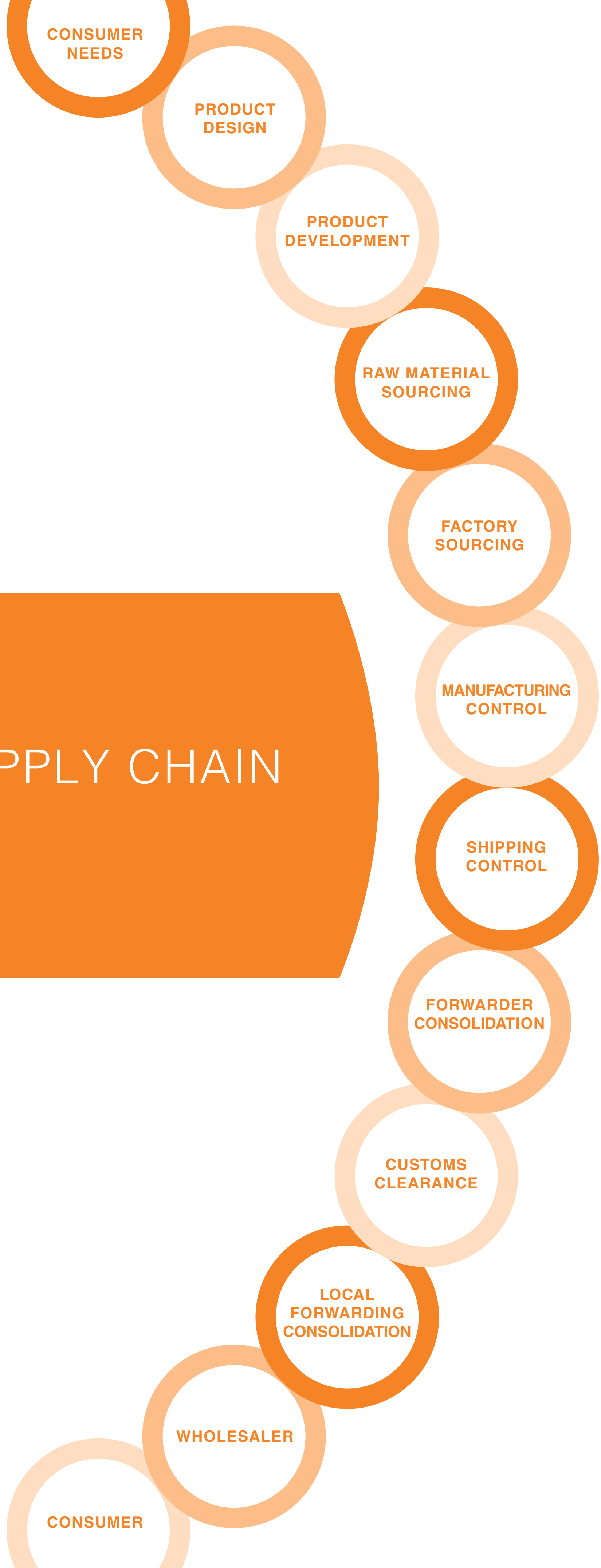
Economic forecasts for 2013 predict a mixed bag in Li & Fung's key markets around the world pretty much the same as in 2012; namely, moderate growth in the US, uncertainties persisting in Europe and good growth prospects in Asia. Although uncertainties remain, the Group's fundamentals remain strong. Our core trading business is very resilient, our foray into supplying the Asian markets, and not just sourcing from it, is yielding good results. We know where we have a problem and are moving aggressively to fix it. We are confident that the re-structuring of the LF USA Distribution business will be completed by 2013 and the Group can look forward to returning to operating at the 2011 levels. The Group will further refine the model of the three distinct Networks – Trading, Logistics and Distribution – in the next Three-Year Plan (2014–2016) to leverage our unparalleled expertise in supply chain management for further growth.

In closing, I would like to commend my colleagues for all their dedication and hard work to ensure that Li & Fung further strengthens its position as the leading global supply chain management company in consumer goods. I firmly believe that our efforts will result in a much better performance, and I thank everyone for their support.

William FUNG Kwok Lun
Group Chairman

Hong Kong, 21 March 2013

THE SUPPLY CHAIN





We manage all aspects of
the Global Supply Chain with
our extensive network covering over
300 offices and distribution centers in
more than 40 economies



MANAGEMENT DISCUSSION AND ANALYSIS

Back Row (from left to right):
Gerard Raymond, Spencer Fung, Bruce Rockowitz, Edward Lam, Stephen Lister (appointed in 2013), Marc Compagnon, Richard Darling, Joseph Phi and Lale Kesebi (absent)

Front Row (from left and right):
Dow Famulak, Victor Fung, Emily Mak, William Fung, Leung Wai Ping, Henry Chan and Jason Rabin

RESULTS REVIEW

2012 was a challenging year for Li & Fung. The Group completed its end-to-end global supply chain with the acquisition of Integrated Distribution Services Group Limited ("IDS") in October 2010 and the establishment of LF Asia. Since then, the Group has been focusing on further developing its businesses across three Business Networks – Trading, Logistics and Distribution. This strategy has been the right one for the new era of growth, with the logistics business growing healthily and the core trading business demonstrated solid performance despite challenging retail environments in the US and Europe. However, the Group's performance in 2012 was significantly affected by our US wholesale Distribution Network business, LF USA, where the management has taken decisive action in restructuring its operations and introducing cost control measures across the Group. The Group is committed to the turnaround of LF USA business, although the restructuring project is still ongoing and it will take time to see the full benefits. It is targeted that the restructuring project will be completed by 2013. The Group can look forward to returning to operating at the 2011 levels.

The Group's businesses tend to be skewed towards the second half of the year, and this year was no exception. For the year ended 31 December 2012, the Group's turnover increased by 1% to US$20,222 million reflecting the fundamental strengths of its core trading business and its resilience as a dominant player in the global sourcing arena while the trend for outsourcing has continued as more retailers and brands are looking for one-stop-shop supply chain solutions. In addition, its business in Asia was also growing through LF Asia and LF Logistics.

- Core operating profit decreased by 42.0% to US$511 million; core operating profit margin decreased from 4.4% to 2.5%.
- Total margin decreased by 3.6% to US$2,964 million, decreasing as a percentage of turnover from 15.3% to 14.7%.
- Profit attributable to shareholders was US$617 million, representing a decrease of 9.4% compared to 2011.

In line with the Group's profit alert announced on 11 January 2013, core operating profit dropped due to restructuring costs of LF USA's business, coupled with the margin pressure for certain licensing brands and product categories, as well as the reduction in the number of brands distributed in the USA as part of the restructuring. Operating costs increased by 11.9% from US$2,192 million to US$2,453 million, which was mainly attributable to the on-going restructuring costs incurred at LF USA, as well as recent acquisitions in both the Trading and Distribution Networks during the reporting period.

Profit attributable to shareholders decreased by 9.4%. This included a re-measurement gain adjustment to contingent considerations of US$326 million for certain previous acquisitions made in 2010. The adjustment was due to the re-measurement of contingent consideration payable as at 31 December 2012.

SEGMENTAL ANALYSIS

THREE NETWORKS SEGMENTATION

The Group's business is organized according to three Business Networks: Trading, Logistics and Distribution. The three Business Networks cover the entire supply chain ranging from providing sourcing services to wholesalers and retailers via the Trading Network, to acting as principal and wholesaler by offering the Group's own design and products to retailers via the Distribution Network. The Logistics Network interacts between two Networks with comprehensive logistics solutions and international freight forwarding services.

The **Trading Network** remains the core competence of the Group's sourcing business. It covers our various operating units with LF Sourcing as the largest sourcing agent globally, Direct Sourcing Group ("DSG") serving Wal-Mart exclusively as an agent, LF Fashion and LF Products to act as trader and virtual manufacturer with product expertise, as well as LF Beauty for the newly expanded beauty and cosmetics segment.

TRADING NETWORK

	2012	2011	**Change**	
	US$mm	US$mm	US$mm	%
Turnover	**16,130.9**	15,880.1	250.8	*1.6%*
Total margin	**1,450.8**	1,410.3	40.5	*2.9%*
	9.0%	*8.9%*		
Operating costs	**(924.6)**	(845.1)	(79.5)	*9.4%*
Core operating profit	**526.2**	565.2	(39.0)	*-6.9%*

The Trading Network represented the Group's most significant source of turnover and core operating profits. Turnover went up 1.6% from last year. This reflected that the Group's Trading Network business was resilient in 2012 and was only marginally impacted by the unfavourable and uncertain macroeconomic environment in Europe. Total turnover for the US increased by 4.8% as compared to last year, offset by the 12.0% reduction in total turnover to European customers. Total Margin remained stable at 9.0%, reflecting the stable margin trend among the various operating groups within the Trading Network. Operating costs increased by 9.4% from US$845 million to US$925 million, which was mainly due to new acquisitions over True Innovations and Loyaltex, both of which made positive contributions to the Group during the year. Core operating profit of the Trading Network was at US$526 million in 2012, a decrease of 6.9% from last year, which was mainly attributed to the overall downtrend of average unit price, offset by the positive operating performance of DSG.

The **Logistics Network** provides comprehensive logistics services, including warehousing, transport, and freight forwarding to customers. The Logistics Network focuses mainly on Asia based in-country logistics solutions covering key countries in Greater China and Southeast Asia. It also provides international freight forwarding services for cross-border shipments globally to customers in the US and Europe. It forms a critical part in completing the end-to-end global supply chain solution offered by the Group.

LOGISTICS NETWORK

	2012	2011	**Change**	
	US$mm	US$mm	US$mm	%
Turnover	**403.7**	350.6	53.1	*15.1%*
Total margin	**159.8**	143.7	16.1	*11.2%*
	39.6%	*41.0%*		
Operating costs	**(135.9)**	(125.9)	(10.0)	*7.9%*
Core operating profit	**23.9**	17.8	6.1	*34.2%*

The Logistics Network continues to demonstrate solid growth with a 15.1% increase in turnover as compared to last year, accounting for 2% of total turnover. While still small compared to the other two Networks, LF Logistics' contribution increased significantly with core operating profit growing by 34.2% over 2011. By capitalizing on the existing customer base of Li & Fung and cross selling among Networks, the Logistics Network business has experienced significant organic growth since being acquired by the Group and delivered positive operating leverage throughout the year.

The **Distribution Network** has been a rapidly expanding business segment with Li & Fung since 2005, acting as principal and wholesale distributor offering design, products and services to key retail customers globally via LF USA and LF Europe. In 2010, the Group established LF Asia – Food, Health, Beauty & Cosmetics, as well as LF Asia – Fashion & Home, to penetrate the fast-growing Asian markets. The Distribution Network is global in nature, covering all key countries, and is intended to leverage the Group's global sourcing capabilities to provide value-added services to key retail customers.

DISTRIBUTION NETWORK

	2012	2011	**Change**	
	US$mm	US$mm	US$mm	%
Turnover	**6,435.9**	6,370.3	65.6	*1.0%*
Total margin	**1,353.2**	1,520.2	(167.0)	*-11.0%*
	21.0%	*23.9%*		
Operating costs	**(1,392.1)**	(1,221.1)	(171.0)	*14.0%*
Core operating profit	**(38.9)**	299.1	(338.0)	*-113.0%*

The Distribution Network recorded a total turnover of US$6,436 million in 2012, representing a slight 1% increase as compared to last year. The Distribution Network as a whole incurred a loss of US$39 million in 2012, mainly due to the disappointing performance of LF USA. Core operating profit of the Distribution Network reduced by US$338 million from 2011 to 2012, of which LF USA alone accounted for US$352 million of such year on year change.

LF USA experienced significant margin pressure during the year for certain licensed brands as well as product lines. Following a change in senior management at LF USA in December 2012, the Group decided to discontinue certain brands. This resulted in additional provisions associated with mark-down and inventory which caused a significant deterioration in overall margin. As a result, the total gross profit margin of LF USA decreased by US$185 million in 2012. The Group will continue to review its overall brand portfolio.

The total operating costs of LF USA increased by US$167 million from US$801 million in 2011 to US$968 million in 2012, which accounted for 98% of the total increase in operating costs in the Distribution Network. Total operating costs at LF USA include approximately 38% of variable costs such as royalty, storage and shipping charges. The main cause for the increase in total operating costs was the on-going restructuring program to streamline operations, integrate newly acquired businesses, and rationalize the existing business portfolio. LF USA also initiated a central merchandising and off-shoring program with the objective of achieving efficient product pricing by transferring key sourcing and product design support functions to Asia. The total restructuring costs associated with such efforts amounted to approximately US$80 million in 2012.

On the other hand, the LF Europe business continued to develop in 2012 despite the uncertain environment and has been operating smoothly, turning in a creditable performance for the year. Under stronger, more focused management and favorable market conditions, the LF Asia business continued to maintain its growth momentum in 2012, with the LF Asia – Food, Health, Beauty & Cosmetics business delivering margin improvement while LF Asia – Fashion & Home reported continuous business growth with new licensing arrangements and recent acquisitions. The combined core operating profit for LF Europe and LF Asia collectively increased by US$14 million in 2012 as compared to 2011.

SOFTGOODS & HARDGOODS SEGMENTATION

In 2012, softgoods and hardgoods accounted for 63% and 35% of turnover respectively. Logistics represented approximately 2%. **Softgoods** turnover decreased by 2% which was largely due to the soft consumer market in Europe. **Hardgoods** turnover increased by 6%, which was attributed mainly to new acquisitions including True Innovations. Logistics turnover growth was encouraging and showed an increase of 12% over 2011.

GEOGRAPHICAL SEGMENTATION

Geographically, the **US** continued to be the Group's key export market, representing 62% of total turnover during the year under review, and this share grew from 60% in 2011. The increase was largely from acquisitions such as Fishman & Tobin, True Innovations and Loyaltex. Year on year, turnover increased by 6%, reflecting growth in both the Trading and Distribution Networks.

Europe accounted for 19% of turnover, compared to 21% in 2011. The decline in percentage of total turnover was due to the relatively faster growth of the Group in other markets, in particular the US and China. In addition, the drop reflected a soft consumer market in Europe overall, resulting in a negative impact on the Group's Trading Network. As a result, the Group experienced a decrease in turnover of 12%, year on year.

Asia accounted for 12% of total turnover, of which **China** accounted for 6%, the same as compared to last year. Year on year, turnover increased by 2.4% due to the growth of LF Asia and LF Logistics.

Turnover in **Canada, Australasia, Central & Latin America,** and **South Africa & the Middle East** collectively accounted for 7% of the Group's turnover, which was approximately the same as last year.

ACQUISITIONS

During 2012, the Group continued to supplement its organic growth strategy with selected acquisitions to expand its product offerings, customer base and product expertise, as well as establish platform build-out. The Group completed 10 acquisitions in 2012 with total considerations of US$611 million and annualized turnover of approximately US$700 million. The most significant acquisition was the US$190 million acquisition of Lornamead Acquisitions Limited ("Lornamead", acquired under Trading Network in December 2012). Lornamead, a private company managing a portfolio of traditional and heritage personal brands in the US, Germany and UK. This transaction provided the Group with a strong platform of over 20 brands in the health and beauty area to expand globally, including Asia.

Other than Lornamead, the Group completed 9 other smaller acquisitions in 2012, with total consideration of approximately US$421 million. The initial cash consideration for such smaller acquisitions was approximately US$125 million, plus around US$296 million in contingent consideration payment for the next 3–6 years.

For accounting purposes, the total amount of annualized amortization of intangibles of all the 10 transactions in 2012 was around US$8.4 million.

ENHANCING PRODUCT OFFERINGS

Name	Business	Strategic Rationale
Algreta Solutions Limited *(February – Trading Network)*	• Source tagging recycling solution provider to apply electronic article surveillance (EAS) tags on retail merchandise	• Offer customers cost-saving solutions that increase the effectiveness of security tagging, enhance efficiency of store labor, and reduce retail shrink through the supply chain
Added Extras, LLC *(March – Trading Network)*	• Leading marketer of licensed youth cosmetics and personal care products	• Broaden capabilities and product categories in cosmetic and personal care products and further expand beauty business
Lotta Luv *(July – Trading Network)*	• Leading manufacturer and marketer of licensed lip products	• Strengthen beauty platform with addition of new product category and help to expand market share with key retailers
Fashion Lab Limited *(July – Distribution Network)*	• A dynamic license apparel wholesaler for infants, kids and women segments in Europe	• Strengthen the Group's position in Europe with new product offerings and design capabilities
The Mint Group Pte. Ltd. *(December – Distribution Network)*	• Specialized in the licensing business for children's characters in Southeast Asia	• Provide the Group with an immediate access to the children's characters licensing business in Asia

STRENGTHENING PRODUCT/DESIGN EXPERTISE

Name	Business	Strategic Rationale
Palamon (International) Ltd *(March – Trading Network)*	• Leading role-play costumes and party accessories trading company servicing mass and toy retailers	• Bring in talent and expertise in the costume and party categories, which will complement the Group's product offerings in the seasonal and kids business
Dragon Concept HK Ltd. *(June – Trading Network)*	• Design driven virtual manufacturer supplying fashion bags, shoes, and accessories	• Strengthen expertise and knowhow in product development and production of bags, shoes, and accessories
Brilliant Global *(August – Trading Network)*	• Design-driven virtual manufacturing, specializing in ladies' sweaters targeted at juniors	• Further enhance competitiveness in virtual manufacturing with potential cross-selling opportunities
Foreign Resources *(November – Trading Network)*	• An apparel agent/supplier with expertise in outerwear, swimwear and sportswear products	• Enhance the Group's expertise and ability in outerwear category to big box and specialty stores

ADJUSTMENT TO PURCHASE CONSIDERATION PAYABLE

Given the unique nature of the Group's acquired businesses, which are private enterprises relying on entrepreneurs' commercial skills to drive the business, the Group generally structures its acquisitions with incentive schemes and contingent payments on purchase consideration payable linking to the future performance of the acquired businesses.

The Group follows a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised) "Business Combination." The Group's contingent consideration payables are performance based payments in the form of "earn-out" and "earn-up" depending on a set of predetermined performance targets mutually agreed with the entrepreneurs in accordance with the sale & purchase agreement. The "earn-up" performance target is generally set with a higher threshold with total payments payable by the end of the earn-up period, which is usually in 4 to 6 years after completion of the transaction.

While many acquired businesses remain profitable and are growing, the Group may still be required to make downward fair value adjustment to certain consideration payable should the acquired businesses be unable to achieve the predetermined threshold within the specific timeframe as stipulated in the sale & purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying business performance of the acquired businesses could continue to perform and grow, yet the Group may still be required to adjust the consideration payable.

The Group performed a detailed review of all the transactions entitled to contingent consideration payments in the form of earn-out or earn-up, and the Group identified 4 transactions which required adjustment to the fair value of consideration payable, resulting in corresponding re-measurement gain. The total re-measurement gain of US$326 million reflected the amount that the Group would no longer be required to pay based on management estimates according to the terms and conditions of the sale & purchase agreement. The majority of the adjustment was related to the earn-up portion of the transactions, totalling US$270 million. The Group will continue to perform regular reviews of the consideration payable and closely examine potential adjustments in accordance with HKFRS 3 (Revised).

GOODWILL IMPAIRMENT TEST

The Group also performs regular assessments of the acquired businesses to determine any potential permanent impairment for both goodwill and intangible assets according to HKAS 36 "Impairment of Assets". Unlike assessment of the potential adjustment of consideration payable, which is formula-driven and based on predetermined thresholds during a specific time frame, the goodwill impairment test is conducted based on assessment of the long-term prospects of the acquired business. As such, any goodwill impairment would need to be permanent in nature, when the long-term performance prospects of the acquired businesses no longer generate adequate present value cash flow to support the carrying value of the goodwill and intangibles.

Since the majority of the businesses acquired are integrated into existing business units, the Group performed goodwill impairment tests based on the cash generating units ("CGU") which manage the acquired businesses in accordance with HKAS 36. Based on the Group's assessment of all of the CGUs, the Group has determined that there is no goodwill impairment as at 31 December 2012, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. The Group will continue to perform goodwill impairment tests on an on-going basis.

LICENSING DEALS

During 2012, the Group signed 9 licensing deals.

In the men's & kids' apparel area, the Group signed a licensing agreement with Geoffrey Beene for their men's sportswear and with Nautica for their dress shirts. In the women's apparel area, Li & Fung completed a number of licensing agreements with proprietary brands, namely Narciso Rodriguez, which is exclusive at Kohl's and Marilyn Monroe, which is exclusive at Macy's. The Group also entered into licensing agreements with Lulu Guinness and Jonathan Adler in the accessories and home area, both exclusive at JC Penney.

The Group also signed a licensing agreement with Reebok for children's apparel in the European market. Under the agreement, the Group does not only design, produce and sell for Reebok in Europe, but is also the designer and producer for Reebok distributors globally.

During the year under review, the Group also entered into exclusive licensing agreements with Nautica Kids for kids apparel & accessories in Greater China and Peanuts for all categories in Greater China, South East Asia and Korea.

In addition, Li & Fung entered into a licensing agreement with Angry Birds for certain product categories including personal care, cosmetics and first aid products. The Group also signed a licensing agreement to produce, design and supply Angry Birds Star Wars in Europe.

OUTSOURCING DEALS

In August, Li & Fung entered into an outsourcing agreement with Target Australia, an Australian department store chain that operates 172 Target stores and 119 Target Country stores. The arrangement covers both softgoods and hardgoods.

In September, the Group entered into a new agency agreement with Wal-Mart Stores, Inc. that supersedes the previous buying agency agreements made in 2010. Under the new agency agreement, DSG will continue as the primary direct resource for Sam's Club in the U.S. and continue to provide buying agency services to Walmart U.S. and certain Walmart International markets on a category-specific basis on terms similar to those under the previous buying agency agreements.

DIVESTMENT OF A RETAIL BUSINESS AND DISTRIBUTION AGREEMENT (CONNECTED TRANSACTIONS)

In December, the Group announced the sale and purchase agreement for the disposal of IDS Group's LF Asia (Taiwan) Limited to ILC International Corporation (an indirect wholly-owned subsidiary of Fung Holdings (1937) Limited, a substantial shareholder of the Group). LF Asia (Taiwan) Limited is principally engaged in the retail of apparel and accessories under the "Roots" brand, with a retail network in Taiwan adopting an integrated retail business model comprising retailing, direct sourcing, product design and brand management. The main reason for the disposal of the retail business was to transform LF Asia's Taiwan operation to the business model of brand licensing, focused on product design, brand management, sourcing, distributing and wholesale without directly engaging in retail operations.

During the same month, pursuant to the above sale and purchase agreement, the Group also announced that IDS Group had entered into distribution agreement with Branded Lifestyle Trading (Asia) Limited (an indirectly wholly-owned subsidiary of ILC International Corporation), appointing it as the distributor of "Roots" branded products for LF Asia including menswear, ladieswear, childrenswear, bags and luggages, fashion accessories and footwear and certain third party licensed merchandise.

FINANCIAL POSITION

CASH POSITION AND CASH FLOW

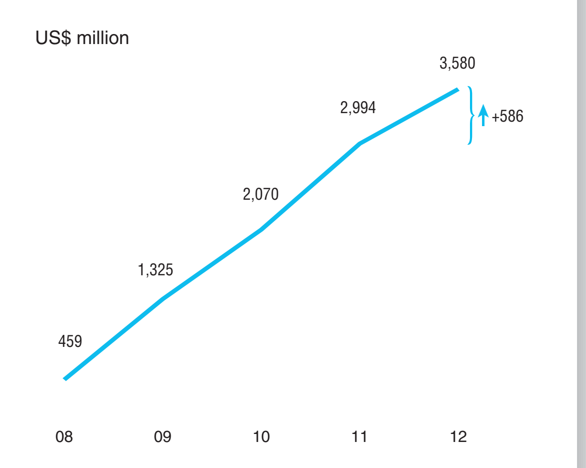
The Group continued to enjoy a solid cash position for the year under review, with cash and cash equivalents amounting to US$680 million as at 31 December 2012. This represented an increase of 60% compared to last year's US$426 million. The enhanced cash position was mainly attributable to a positive operating cash flow of US$586 million, a new share placement of approximately US$500 million, and a subordinated perpetual capital securities of US$500 million during the year, as offset by dividend payment, business acquisitions, and repayment of purchase consideration payable. These financial arrangements enable the Group to build up a solid reserve for its future growth strategy.

SUMMARY OF CONSOLIDATED CASH FLOW STATEMENT

	2012	2011	Change	
	US$mm	US$mm	US$mm	%
Cash and cash equivalents at 1 January	**426**	940	(514)	*(55%)*
Net cash flow from operating activities	**586**	924	(338)	*(37%)*
Investing activities	**(763)**	(971)	208	*(21%)*
Financing activities	**428**	(469)	897	*191%*
Effect on foreign exchange rate change	**3**	2	1	*103%*
Cash and cash equivalents at 31 December	**680**	426	254	*60%*

Operating cash flow in 2012 remained one of the key sources of funds. The Group's operating cash flow reached US$586 million for the year despite the lower than expected performance of the LF USA business.

CUMULATIVE OPERATING CASH FLOW

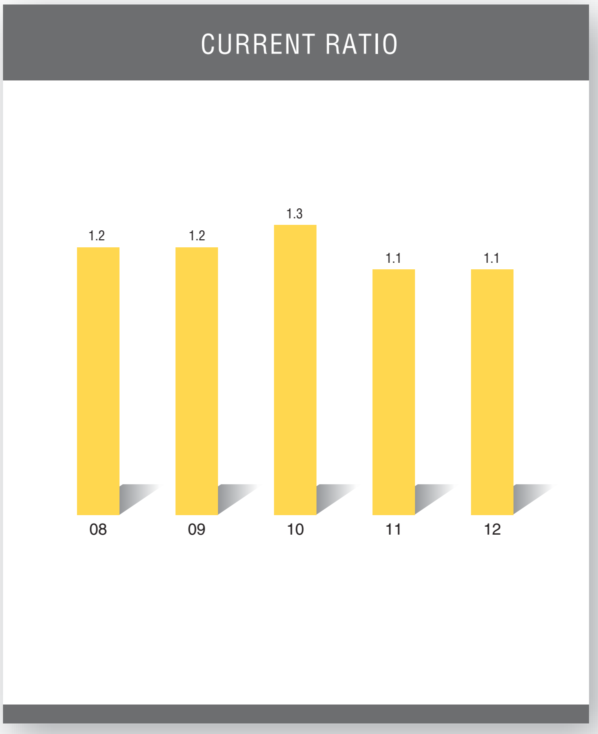


Net Cash Out Flow from Investing Activities totalled US$763 million in 2012, representing a reduction of cash outflow of US$208 million as compared to 2011. The decrease in cash outflow from investing activities was mainly due to the reduction in payments for acquisitions during 2012. Given that 2011 was the beginning of the current Three-Year Plan, the Group invested significantly with US$701 million of acquisitions to expand its market presence and product offering capabilities. Leveraging the platform built in 2011, the Group incurred US$292 million in acquisitions in 2012, with the most significant acquisition being Lornamead in the health and beauty segment. Management continued to adopt a prudent and conservative approach in its acquisitions strategy to complement its organic growth and expand market position. Among the plentiful deal investment opportunities in the pipeline, only those with high growth potential at reasonably low price-earning multiple will be considered.

Net Cash Flow from Financing Activities totalled US$428 million in 2012, representing a significant change from the net cash outflow from financing activities of US$469 million in 2011. The significant increase in cash flow from financing activities was mainly due to the two long-term funding exercises in 2012:

- In March, the Group announced the placing of 210 million of shares, raising net proceeds of US$498 million.
- In November, US$500 million in subordinated perpetual capital securities was issued, raising cash proceeds of US$496 million. This new issue helped the Group further diversify its funding channels in the capital market.

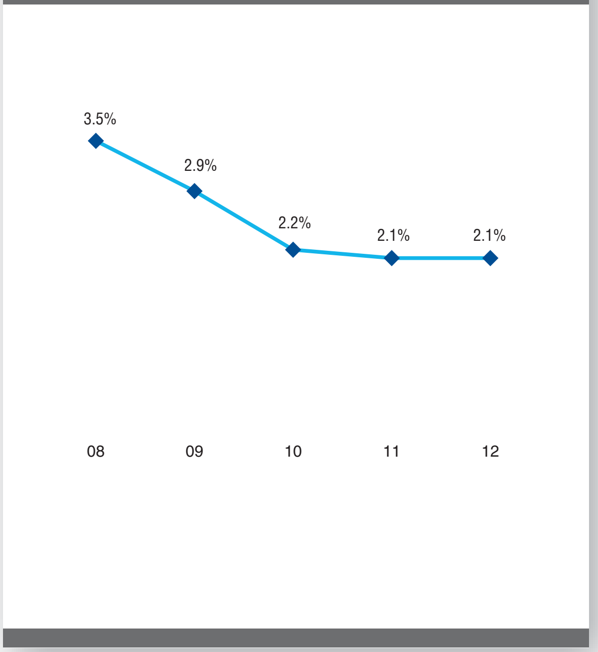
A portion of proceeds from the two long-term funding exercises were to use for the current year's acquisitions and to repay a portion of the purchase consideration payable resulting from previous acquisitions. The Group also incurred US$525 million in dividend payment during 2012, all of which was financed by our operating cash flow of US$586 million and existing cash on hand. As a result, cash and cash equivalents at balance sheet date increased by US$254 million from US$426 million to US$680 million.



NET CURRENT ASSETS

At balance sheet date, the current ratio was 1.1, based on current assets of US$4,380 million and current liabilities of US$3,874 million. In 2012, the Group continued to keep this ratio at the same level as last year. Since last Three-Year Plan (2008–2010) during which the Group was making fast expansion in its Distribution Network (which requires the maintenance of receivables and inventories at certain level), the current ratio had not seen any significant deterioration. The Group has effective controls with special focus on minimizing its trade receivable and inventories, and at the same time maximizing the use of supplier credit to assist its cash flow.

AVERAGE NET WORKING CAPITAL AS % OF TURNOVER



AVERAGE NET WORKING CAPITAL

Net Working Capital is defined as total trade and other receivables, as well as inventories, less total trade and other payables. In 2008. the Group's Net Working Capital was US$477 million, with Average Net Working Capital to turnover at 3.5%. Since then the Group has been able to gradually maintain a steady decline in Net Working Capital to approximately US$406 million as at the end of 2012, with average net working capital to turnover declined to 2.1%.

BANKING FACILITIES

Normal trading operations are well supported by over US$2,700 million in bank trading facilities including letter of credit and bills discounting. As at 31 December 2012, less than half of the facilities were utilized.

In addition, the Group had available bank loans and overdraft facilities of US$1,415 million, out of which US$695 million were committed facilities. As at 31 December 2012, only US$218 million of the Group's bank loans and overdraft facilities were drawn down, with US$157 million being committed facilities. The unused limits on bank loans and overdraft facilities amounted to US$1,197 million, with US$538 million being committed unused facilities.

Bank Loans and Overdraft Facilities as at 31 December 2012

	Limit US$mm	**Outstanding** US$mm	**Unused Limit** US$mm
Committed	695	157	538
Uncommitted	720	61	659
Total	1,415	218	1,197

CAPITAL STRUCTURE

ENHANCED EQUITY

The Group's equity increased by US$1,206 million (from US$3,939 million) to US$5,145 million during 2012, which was mainly attributable to the new share placement and a subordinated perpetual capital securities issue, each at a size of US$500 million. As at 31 December 2012, shareholders' fund amounted to US$4,630 million in 2012.

DEBT OBLIGATIONS

The Group has adopted a conservative approach in managing its balance sheet with low debt leverage. In 2007, the Group issued its first 10-year bond for US$500 million, following by another US$750 million issue in 2010. In addition to this, the Group also drew down bank loans as and when required.

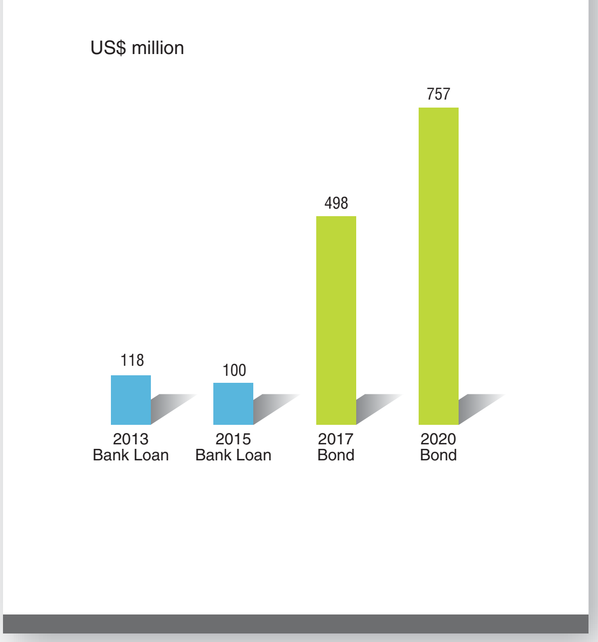
The Group's gross debt of US$1,473 million as at 31 December 2012 had maturities spreading over the next 7 years.

The Group's net debt was reduced to US$793 million as at 31 December 2012 mainly due to an increase in cash balance during the year under review. As a result of the lower net debt level and increase in equity base, the Group's gearing ratio significantly improved to 13% as at 31 December 2012, which is well within the Group's internal guideline of 35%. The gearing ratio is being defined as total borrowings, net of cash, and divided by total capital being total net debt plus total equity.

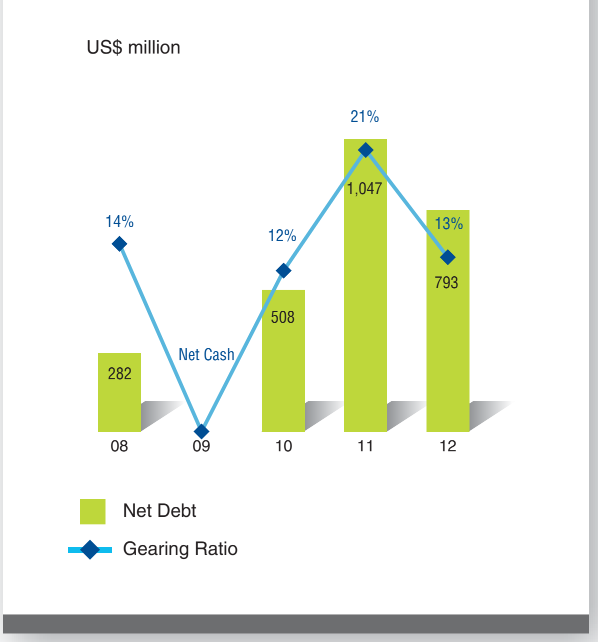
CREDIT RATING

During 2012, Li & Fung maintained credit ratings from Moody's and Standard & Poor's of A3 (stable) and A- (stable) respectively. Following the Group's profit alert announced on 11 January 2013, Moody's changed its outlook for Li & Fung from stable to negative while Standard & Poor's placed the ratings on CreditWatch. Meanwhile, the Group continues to maintain healthy cash flow and credit ratios, with the overall long-term target of retaining an investment grade rating. The Group has strict policies governing accounting control as well as risk & treasury management. Key focus is made on the following:

DEBT MATURING DATE



GEARING (NET DEBT / TOTAL CAPITAL)



Credit Risk Management

Credit risk mainly arises from trade and other receivables. The Group has stringent policies in place to manage its credit risk with such receivables, which include but are not limited to the measures set out below:

(i) The Group selects customers in a cautious manner. Its credit control team has implemented a risk assessment system to evaluate its customers' financial strengths prior to agreeing at the trade terms with individual customers. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from a small number of its customers that fall short of the required minimum score under its Risk Assessment System;

(ii) A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;

(iii) It has in place a close monitoring system with a dedicated team to ensure on-time recoveries from its trade debtors;

(iv) Internally it has set up rigid policies on provision made for both inventories and receivables to motivate its business managers to step up efforts in these two areas so as to avoid any significant impact on their financial performance.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's cash balances were deposits in HK$ and US$ with major global financial institutions, and the Group's revenues and payments were transacted predominantly in US$. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations.

There are small portions of sales and purchases transacted in different currencies, for which the Group arranges hedging by means of foreign exchange forward contracts. Other than this, the Group strictly prohibits any financial derivative arrangement merely for speculation.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of the date of this annual report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$248 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/93 to 2011/12.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious reasons to justify appealing against the Commissioner's determination. Accordingly, LFT lodged a notice of appeal to the Board of Review on 13 July 2004. The appeal was heard before the Board of Review in January 2006.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favor of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim should be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal by the Court of First Instance.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, dismissed the HKIR's appeal and awarded costs of the appeal of LFT. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal requires permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the HKIR within the prescribed time limit, the Court of Appeal judgment on the Offshore Claim is considered final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance has remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this annual report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$205 million. The case before the Board of Review and eventually the Court of Appeal only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's professional advisers on the merits of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, the Group also applied for a judicial review of the decision of the Commissioner of the HKIR rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this annual report, the hearing date for the judicial review application is yet to be fixed.

PEOPLE

As at the end of 2012, Li & Fung had a total workforce of 28,465, of whom 4,361 were based in Hong Kong and 24,104 were located overseas and in mainland China. Total manpower costs for 2012 were US$1,324 million, compared with US$1,227 million for 2011. A summary of our key initiatives in 2012 is provided below with more details in the Sustainability section of the annual report.

LEARNING AND DEVELOPMENT

Our people development strategies focused on building core expertise in Merchandising and Logistics, as well as leadership development. In 2012, over 20,365 colleagues in 38 locations participated in 723 in-house learning programs. Besides the Executive Leadership Program delivered through the MIT Sloan School of Management and The University of Hong Kong which ran for its fourth year, we launched a new Advanced Leadership Program delivered through Stanford University and The University of Hong Kong. We also introduced a New Manager Program and participated in the corporate Program for Management Development (PMD).

With the increase in size of the Group, our investment in a robust learning platform, called "My Career", allows a larger group to benefit from real-time, self-paced learning. Besides formal classroom and e-learning delivery, colleagues can learn through the use of help materials, job-aids, checklists, access to subject matter experts, an online information search engine, and peer collaboration. We had a record of over 37,304 colleague visits to access to these informal learning activities.

EMPLOYEE ENGAGEMENT

In 2012, we launched some key initiatives around the themes of Communication, C.A.R.E. and Career with our Engagement Champions spearheading activities in their respective businesses and sharing examples of employee engagement in action, as well as hosting a variety of communication and engagement sessions. The global C.A.R.E. initiative also included "lunch and learn" sessions to enhance the health and well-being of our colleagues, the launch of a new internal website to increase employee involvement, production of a video to show our engagement journey and destination, and the sharing of over 16,000 copies of our C.A.R.E. handbook – which highlights our C.A.R.E. values, behaviors and stories – with our colleagues.

OCCUPATIONAL HEALTH AND SAFETY, WELL-BEING AND HUMAN RIGHTS

We continue to share our *Useful Tips* on health and well-being on a daily basis with our colleagues through email messages and our internal e-platform. Within our Logistics and Distribution Networks, we also implemented formalized occupational health and safety systems that include regular safety talks and training on topics such as workplace hazards, safe working practices and chemical management, as well as regular emergency preparedness training and drills. In 2012 we implemented an awareness and training program for our global colleagues to support the rollout of our updated *Code of Conduct and Business Ethics*.

COMMUNITY ENGAGEMENT

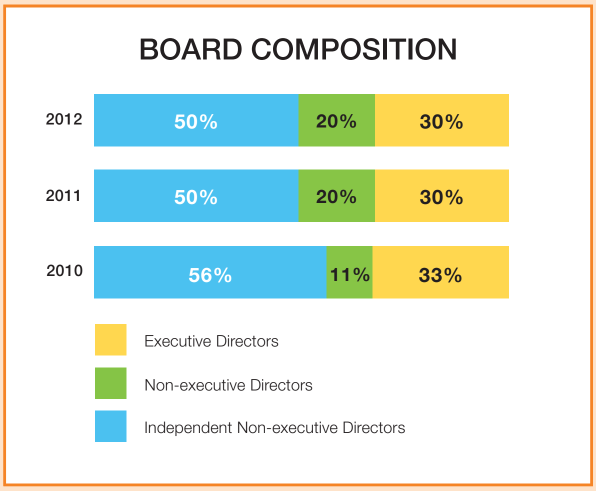
In 2012, we organized global campaigns across all of our offices and, with the support of the Fung (1906) Foundation Limited ("Fung (1906) Foundation"), we engaged even more colleagues and expanded our reach into more communities. Our global campaigns included: a 6-month Ocean Awareness and Action Campaign; Red Décor Day and Blood Drives to support humanitarian causes; Breast Cancer Awareness Month; and Movember to support Prostate Cancer Awareness Month. Over 14,200 of our employees volunteered more than 31,600 hours to support 169 environmental and social initiatives around the world. Our global colleagues also raised over US$166,000 to support communities, with the Fung (1906) Foundation providing over US$205,000 to further support some of these projects.

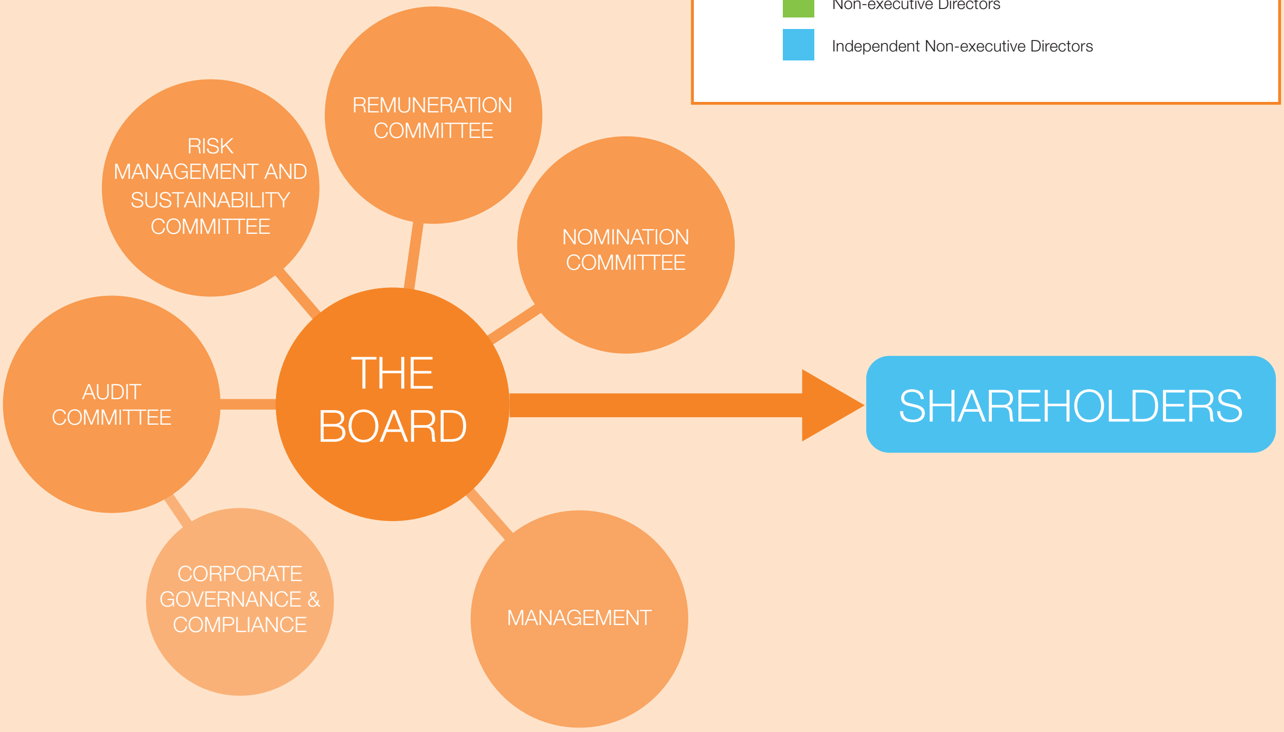
The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.

THE BOARD

BOARD COMPOSITION

The Board is currently composed of three Executive Directors (Group Chairman, Group President and Chief Executive Officer, and Group Chief Operating Officer), two Non-executive Directors (including Honorary Chairman) and five Independent Non-executive Directors. The Board considers this composition to be more balanced and to reinforce a stronger independent review and monitoring function on overall management practices. Directors' biographical details and relevant relationships are set out in the Directors and Senior Management section on pages 52 to 57.





GROUP CHAIRMAN AND GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICER

The role of the Group Chairman is separate from that of the Group President and Chief Executive Officer. This is to enhance their respective independence, accountability and responsibility. Their respective responsibilities are clearly established and defined in writing by the Board.

Group Chairman	• responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures.
Group President and Chief Executive Officer	• responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board with the support from other Executive Directors and Senior Management, and within those authorities delegated by the Board.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters.

The Non-executive Directors (majority of whom are independent), who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

DELEGATION TO MANAGEMENT

Day-to-day operational responsibilities are specifically delegated by the Board to management. Major matters include:

- the preparation of annual and interim accounts for Board approval before public reporting;
- execution of business strategies and initiatives adopted by the Board;
- monitoring of operating budgets adopted by the Board;
- implementation of adequate systems of risk management and internal control procedures; and
- compliance with relevant statutory requirements, rules and regulations.

BOARD AND COMMITTEE MEETINGS

Regular board meetings are scheduled one year in advance to facilitate maximum attendance by Directors. The meeting agenda is set by the Group Chairman in consultation with members of the Board. Senior Management is usually invited to join Board meetings to enhance the Board and management communication. External auditor attended the Company's 2012 Annual General Meeting to answer any questions from the shareholders on the audit of the Company.

In 2012, the Board held four physical meetings and six phone conferences (with an average attendance rate of 89%). A summary of Board and Committee meetings in 2012 is set out in the following table:

BOARD AND COMMITTEE MEETINGS FOR YEAR 2012

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Non-executive Directors						
Dr Victor FUNG Kwok King[1]	■■■■■■■■■■	■■■■		■■■■	■■■■	■
Mr Benedict CHANG Yew Teck	◪■■■■■■■■■					■
Independent Non-executive Directors						
Mr Paul Edward SELWAY-SWIFT[2]	◪■■■■■■■■■	■■■■	■■■■			◪
Mr Allan WONG Chi Yun[3]	◪■■■■■■■■■		■■■■		■■■■	■
Professor Franklin Warren McFARLAN	◪◪■■■■■■■■	■■■■	■■■■		■■■■	◪
Mr Martin TANG Yue Nien	■■■■■■■■■■		■■■■	■■■■	■■■■	■
Dr FU Yuning	◪◪◪◪◪■■■■■	◪■■■	◪■■■			■
Executive Directors						
Dr William FUNG Kwok Lun[4]	■■■■■■■■■■			◪■■■		■
Mr Bruce Philip ROCKOWITZ[5]	■■■■■■■■■■			◪■■■		■
Mr Spencer Theodore FUNG[6]	◪■■■■■■■■■			■■		■
Group Chief Compliance Officer						
Mr Srinivasan PARTHASARATHY	◪■■■■■■■■■ [7]	■■■■ [7]	■■■■ [7]	■■■■	■■■■ [7]	■
Dates of meeting	18/1/2012 [8] 22/3/2012 27/3/2012 [8] 14/5/2012 26/6/2012 [8] 9/8/2012 30/10/2012 [8] 4/11/2012 [8] 12/11/2012 14/12/2012 [8]	22/3/2012 14/5/2012 8/8/2012 11/11/2012	21/3/2012 14/5/2012 8/8/2012 11/11/2012	8/2/2012 3/5/2012 6/8/2012 16/10/2012	22/3/2012 14/5/2012 8/8/2012 11/11/2012	14/5/2012

1: Honorary Chairman, and Chairman of Risk Management and Sustainability Committee
2: Chairman of Audit Committee and Nomination Committee
3: Chairman of Remuneration Committee
4: Chairman of the Board
5. Group President and Chief Executive Officer
6: Appointed as Group Chief Operating Officer on 1 April 2012 and a member of Risk Management and Sustainability Committee on 14 May 2012
7: Attended Board and Committee meetings as a non-member
8: Held by telephone conference

■ MEETINGS ATTENDED
◪ MEETINGS UNATTENDED

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence and satisfied that independence up to the approval date of this report. The assessment of the independence of Independent Non-executive Director, which is on no less exacting terms than those set out in Chapter 3 of the Listing Rules of the Exchange, is delegated by the Board to the Nomination Committee.

Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The appointment of a new director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Nomination Committee has established certain guidelines to assess the candidates. These guidelines emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

The Company may in general meeting by ordinary resolution of the shareholders of the Company elect any person to be a Director either to fill a vacancy or to act as an additional Director up to the maximum number of Directors determined by the shareholders in general meeting. If a shareholder of the Company wishes to propose a person for election as a Director at the general meeting convened to deal with appointment/election of director(s), he/she shall serve the Company a written notice and follow the designated procedures which are subject to the Bye-laws of the Company, the relevant laws and the Listing Rules. Details of the procedures for nomination of directors are available on Li & Fung's corporate website (*www.lifung.com*).

Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire, thus becoming eligible for re-election at each Annual General Meeting. As such, no Director has a term of appointment longer than three years. To further reinforce accountability, any further reappointment of an Independent Non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

INDUCTION, INFORMATION AND ONGOING DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors of the Company.

All Directors were kept informed on a timely basis of major changes that may have affected the Group's businesses, including relevant rules and regulations. In addition, the Group has implemented a continuing programme since 2003 to update the Directors (in particular Independent Non-executive Directors) on the macro economics and business environment relevant to the Group's major operations. Overseas Board Meetings coupled with office briefings and a tour by the management of our overseas offices had been regularly conducted since 2004.

In addition to the above, each newly-appointed Director received a tailored induction programme, which covers briefing on the Company's overview by the Group Chairman, meeting with management and meeting with the Company's external legal adviser on directors' legal role and responsibilities.

All Directors are required to provide the Company with their training records on an annual basis. For the year ended 31 December 2012, all Directors have attended the training sessions arranged by the Company. They have also attended and/or given speech at external seminars/training sessions.

To further maximize the contribution from non-management Directors, a separate meeting between the Group Chairman and Independent Non-executive Directors was held in May 2012 to address business and related issues. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2012.

INDEPENDENT REPORTING OF CORPORATE GOVERNANCE MATTERS

The Board recognizes the importance of independent reporting of the corporate governance matters of the Company. The Group Chief Compliance Officer, as appointed by the Board, was invited to attend Board and committee meetings in 2012 to advise on corporate governance matters covering risk management and relevant compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

LIABILITY INSURANCE FOR THE DIRECTORS

The Company has arranged for appropriate liability insurance since 2002 to indemnify its Directors for their liabilities arising out of corporate management activities. The insurance coverage is reviewed with advice from external consultant on an annual basis.

BOARD COMMITTEES

The Board has established the following committees (all chaired by Independent Non-executive Director or Non-executive Director) with defined terms of reference (available on Li & Fung's corporate website), which are on no less exacting terms than those set out in the Corporate Governance Code of the Listing Rules:

- Nomination Committee
- Audit Committee
- Risk Management and Sustainability Committee
- Remuneration Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to all Board members. To further reinforce independence and effectiveness, all Audit Committee members are Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of Independent Non-executive Directors as members since 2003. Details and reports of the Committees are set out below.

NOMINATION COMMITTEE

The Nomination Committee was established in August 2001 and has been chaired by an Independent Non-executive Director since August 2011. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors, the management of board succession and monitoring the training and continuous professional development of directors and senior management.

The Committee met four times in 2012 (with an average attendance rate of 94%) to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at 2012 Annual General Meeting and the nomination of directors to fill board vacancies in 2012, to assess the independence of Independent Non-executive Directors, and to monitor the training and continuous professional development of directors and senior management.

AUDIT COMMITTEE

The Audit Committee was established in 1998 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. The Committee has been chaired by an Independent Non-executive Director since 2003 and all Committee members are Independent Non-executive Directors. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met four times in 2012 (with an average attendance rate of 95%) to review with management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Committee's written terms of reference and make relevant recommendations to the Board.

In 2012, the Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence and performance, provision of non-audit services by our external auditor, the Group's accounting principles and practices, goodwill assessment, listing rules and statutory compliance, connected transactions, internal controls, risk management, treasury, financial reporting matters (including the interim and annual financial reports for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function as well as their training programmes and budget.

Following international best practices, the Committee conducted a review of its effectiveness in 2011 by going through a detailed audit committee best practices checklist as against the Committee's current practices. Similar self-assessment exercises were conducted every two years since 2005. Based on the results of these assessments, the Committee believes it is functioning effectively and further enhancements and changes in practice are decided to be made.

The Committee also ensures that proper whistle-blowing arrangements are in place by which employees can report any concerns, including misconduct, impropriety or fraud in financial reporting matters and accounting practices, in confidence and without fear of recrimination for fair and independent investigation of such matters and for appropriate follow-up action. Under the Group's Guidelines on Whistle-blowing/Reporting of Concerns, employees can report these concerns to either Senior Management or the Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to our Group Chief Compliance Officer at the Company's business address in Hong Kong. In 2012, no incident of fraud or misconduct was reported from employees, shareholders or stakeholders that have a material effect on the Company's accounts and overall operations.

EXTERNAL AUDITOR'S INDEPENDENCE

In order to further enhance independent reporting by the external auditor, part of our Audit Committee meetings were attended only by the Committee and external auditor. The Committee also has unrestricted access to external auditor as necessary.

A policy on provision of non-audit services by the external auditor has been established since 2004. Under this policy, certain specified non-audit services are prohibited. Other non-audit services require prior approval of the Audit Committee if the fee exceeds certain pre-set thresholds. These permitted non-audit services may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditor. In 2012, the external auditor provided permitted non-audit services mainly in due diligence review on acquisitions and tax compliance services. The nature and ratio of annual fees to external auditor for non-audit services and for audit services in 2012 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 101).

In addition, the external audit engagement partner is subject to periodical rotation of not more than 7 years. Also, the Company has enforced a policy that subject to prior approval by Audit Committee, no employees or former employees of external auditor can be appointed as director or senior executive of internal audit or finance function in the Group, within 12 months preceding their employment by the external auditor.

Prior to the commencement of the audit of 2012 accounts of the Company, the Committee received written confirmation from the external auditor on its independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee have been satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers (PwC) as the Company's external auditor, and the Committee has recommended to the Board the reappointment of PwC in 2013 as the Company's external auditor at the forthcoming Annual General Meeting.

RISK MANAGEMENT AND SUSTAINABILITY COMMITTEE

The Risk Management and Sustainability Committee was established in August 2001 and is chaired by the Honorary Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems, and review of the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management and Sustainability Committee met four times in 2012 (with an average attendance rate of 90%) to review risk management procedures pertinent to the Group's significant investments and operations. The scope of review covers receivables management, credit risk management, inventory management, goodwill assessment, tax compliance issues, litigation exposures, acquisitions and integration, other operational and financial risk management as well as corporate responsibility and sustainability.

REMUNERATION COMMITTEE

The Compensation Committee was renamed as the Remuneration Committee on 22 March 2012. It was formed in 1993 and is chaired by an Independent Non-executive Director. The Committee's responsibilities as set out in its written terms of reference include approving the remuneration policy for all Directors and senior executives, and the grant of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Committee met four times in 2012 (with a 100% attendance rate) to review and determine all Executive Directors' and Senior Management's remuneration packages and the grant of share options under the Three-Year Plan 2011–2013.

Details of Directors' and Senior Management's emoluments of the Company are set out in *Note 11* to the accounts on pages 106 to 109.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT

The primary goal of the remuneration policy on executive remuneration packages is to enable Li & Fung to motivate Executive Directors and Senior Management by linking their compensation to performance with reference to corporate and operating groups' objectives. Under the policy, a Director or a member of Senior Management is not allowed to approve his own remuneration.

The principal elements of Li & Fung's executive remuneration package include:

- basic salary;
- discretionary bonus without capping; and
- share options granted under a shareholders' approved option scheme.

In determining guidelines for each compensation element, Li & Fung refers to remuneration surveys conducted by independent external consultants on companies operating in similar industry and scale.

BASIC SALARY

All Executive Directors' and Senior Management's remuneration packages including their basic salary were approved by Remuneration Committee at the beginning of the Group's Three-Year Plan 2011–2013. Under the service contracts between the Company and Group Chairman as disclosed under Directors' Service Contracts section on page 65, Group Chairman is entitled to a fixed basic salary which is subject to review by the Committee.

DISCRETIONARY BONUS

Li & Fung implements a performance-based discretionary bonus scheme for each Executive Director (excluding Group Chairman) and Senior Management. Under this scheme, the computation of discretionary bonus (without capping) is based on measurable performance contributions of operating groups headed by the respective Executive Directors and Senior Management. Group Chairman is entitled to a profit share of the Company's consolidated results after adjustment of interest, tax and minority interests under the above service contracts between the Company and Group Chairman.

SHARE OPTIONS

The Remuneration Committee approves all grants of share options under the shareholders' approved share option scheme to Executive Directors and Senior Management, with regard to their individual performances and achievement of business targets in accordance with the Company's objectives of maximizing long-term shareholder value.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to regular assessment with reference to remuneration surveys conducted by independent external consultants and a recommendation by the Remuneration Committee for shareholders' approval at the Annual General Meeting.

Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of risk management and internal controls in Li & Fung and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. Set out below are the main characteristics of our risk management and internal control framework.

CONTROL ENVIRONMENT

The Group operates within an established control environment, which is consistent with the principles outlined in *Internal Control and Risk Management – A Basic Framework* issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

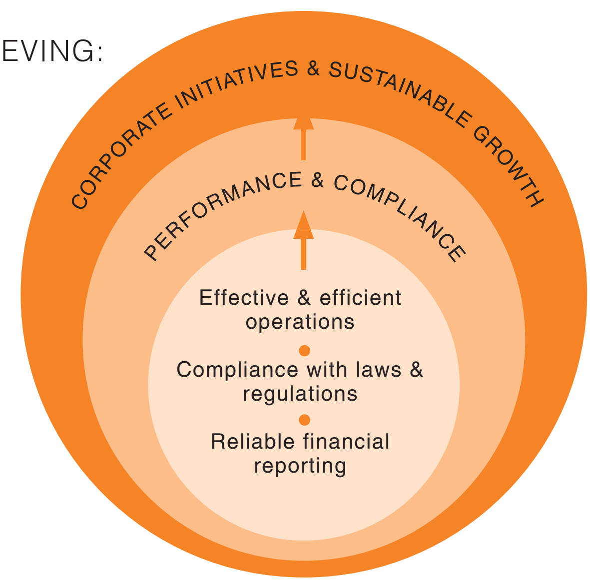
The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. This is characterized by the establishment of an Operation Support Group centralizing the function and control exercised over global treasury activities, financial and management reporting, human resources functions and computer systems. All these controls are supplemented with written policies and Key Operating Guidelines (KOG) tailored to the need of respective operating groups in the countries where the Group operates. These policies and KOG cover key risk management and control standards for the Group's operation worldwide.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The Board approves the Group's Three-Year financial budgets 2011-2013 and reviews the Group's operating and financial performance and key performance indicators against the budget on a semi-annual basis. Executive management closely monitors actual financial performance at the Group and operating group levels on a quarterly and monthly basis.

The Group adopts a principle of minimizing financial and capital risks. Details of the Group's financial and capital risk management covering market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk are set out in *Notes 37 and 38* to the accounts on pages 143 to 146.

LI & FUNG'S INTERNAL CONTROL FRAMEWORK IS DESIGNED TO ACHIEVING:



INVESTMENT MANAGEMENT

The Group Investment Committee (comprising the Honorary Chairman, Group Chairman, Executive Directors and Senior Management) develops investment control procedures, monitor and approve the Group's major investments and acquisitions. Significant investments and acquisitions (with consideration above a threshold as pre-set by the Board) also require Board's approval.

Management also monitors the integration process of the newly acquired businesses through a structured post-acquisition integration program focusing on the alignment of operational and financial controls with the Group's standards and practices. Any significant integration issues have to be reported to Risk Management and Sustainability Committee.

REGULATORY COMPLIANCE CONTROL MANAGEMENT

The Corporate Compliance Group (comprising Corporate Governance Division and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our designated internal and external legal advisors regularly reviews our adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

RISK MANAGEMENT MONITORING

The Risk Management and Sustainability Committee in conjunction with the Audit Committee monitors and updates the Group's risk profile and exposure on a regular basis and reviews the effectiveness of the Group's system of internal control in mitigating risks. Key risk areas covered by the Committees include reputation, business credit, financial and operational risks of our supply chain operations, investment and acquisitions, taxation, inventory and receivable management, Group-wide insurance, human resources, contingency and disaster recovery, IT governance structure, corporate responsibility and sustainability.

INTERNAL AND EXTERNAL AUDIT

Internal Audit

The Group's Internal Audit team within the Corporate Governance Division (CGD), under the supervision of the Group Chief Compliance Officer, independently reviews the compliance with the Group's policies and guidelines as well as legal and regulatory requirements, the internal controls and evaluates their adequacy and effectiveness. Our Group Chief Compliance Officer reports all major findings and recommendations to the Audit Committee on a regular basis.

The three-year Internal Audit Plan 2011–2013 of CGD is strategically linked to the Group's Three-Year Plan and was reviewed and endorsed by the Audit committee. The principal features of the tasks of CGD include:

- Internal Audit plan as prepared under a risk based assessment methodology that covers the Group's significant operations over a three-year cycle period;

- An audit scope which covers significant controls including financial, operational and compliance controls, and risk management policies and procedures;

- Unrestricted access to all the information needed for review of all operations, controls and compliance with KOG and corporate policies, rules and regulations;

- Review on the special areas of concerns or risks as raised by Audit Committee, Risk Management and Sustainability Committee or Senior Management.

Major audit findings and recommendations from CGD, and management response to their findings and recommendations are presented at the Audit Committee meetings. The implementation of all recommendations as agreed with management is being followed up on a three-month basis and reported to the Audit Committee at each Committee meeting.

As part of the annual review of the effectiveness of the Group's internal control and risk management systems for 2012, management had conducted an Internal Control Self-Assessment for the business operations and relevant accounting functions. The Group's CGD has independently performed post-assessment review on the findings noted in the self-assessment programs and considered that sound internal control practices were in place.

External Audit

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits on the Group's accounts. As part of its audit engagement, our external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which might come to its notice during the course of audit. PricewaterhouseCoopers noted no significant internal control weaknesses in its audit for 2012.

OVERALL ASSESSMENT

Based on the respective assessments made by management and the Group's CGD and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for 2012:

- the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the accounts were reliable for publication.

- there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

- the resources, qualifications, experience, training programmes and budget of the staff of the Group's accounting and reporting function were adequate.

CODE OF CONDUCT AND BUSINESS ETHICS

The Group's reputation capital is built on its long-established standards of ethics in conducting business. Guidelines of the Group's core business ethical practices as endorsed by the Board are set out in the Company's *Code of Conduct and Business Ethics* for all Directors and staff. In 2012, the Board approved the revision to the Company's *Code of Conduct and Business Ethics* and a number of accompanying policies and guidelines covering anti-bribery, gifts, entertainment and hospitality, and whistle-blowing that were created to set a framework to help our staff make decisions and comply with both the ethical and behavioural standards of Li & Fung. All the staff are requested to abide by the Code. For ease of reference and as a constant reminder, the Code is posted in the Company's internal electronic portal for reference by all staff.

MARKET RECOGNITION

The Group's continuous commitment to excellence and high standards in corporate governance practices continued to earn market recognition from stakeholders including bankers, analysts and institutional investors during our last Three-Year Plan 2008–2010 and in 2011 and 2012 in the current Three-Year Plan 2011–2013. Details of our awards are set out on page 40 to 41.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for 2012. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance by Directors was noted by the Company in 2012.

DIRECTORS' AND SENIOR MANAGEMENT INTERESTS

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 66 to 68. The shares held by each member of Senior Management are less than 2% of the issued share capital of the Company for the year ended 31 December 2012.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 69, and the auditor's reporting responsibility is set out on page 70.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code and disclosure requirements (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

Under the Company's Bye-laws, in addition to regular Board meetings, the Board, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the registered office of the Company. The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption. To further enhance minority shareholders' rights, the Company has since 2003 adopted the policy of voting by poll for all resolutions put forward at Annual General Meeting and Special General Meeting.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Executive Vice President – Corporate Communications and Investor Relations, whose contact information is detailed on page 58.

CHANGES IN CONSTITUTIONAL DOCUMENTS

Other than the amendments in the terms of reference of Nomination Committee, Audit Committee and Remuneration Committee based on the revised Corporate Governance Code contained in Appendix 14 of the Listing Rules, there is no significant change in the Company's constitutional documents during the year ended 31 December 2012.

INVESTOR RELATIONS AND COMMUNICATIONS

Li & Fung has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with institutional shareholders, fund managers, analysts and the media. Management attends investor meetings on a regular basis and has participated in a number of major investor conferences in Asia and North America. The Group is followed by a large number of analysts, and many of them publish reports on it regularly.

Li & Fung's corporate website *(www.lifung.com)*, which features a dedicated Investor Relations section, facilitates effective communication with shareholders, investors and other stakeholders, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. This includes extensive information about the Group's performance and activities via the Annual Report, Interim Report, press releases and announcements. Webcasts of presentations for interim and annual results briefings as well as presentations given by senior management at investor conferences are also been made available.

In order to promote better communications with stakeholders, in November 2012, Li & Fung also conducted an Analyst Day in Hong Kong, facilitating discussion between analysts and investors and the Group's senior management team, including the Group Chairman, the Group's President and CEO, the Group COO and Presidents from operating groups of business. A live webcast of the event was also made available.

The Group's Annual General Meeting (AGM) provides another principal channel for Directors to meet and communicate with shareholders, who are likewise encouraged to participate. All shareholders are provided at least 20 clear business days' notice to attend the AGM, during which Directors and Committee Chairmen or members are available to answer questions. The results of the voting by poll are published on the Group's website together with details of the meeting, including the time, venue and major resolutions.

Li & Fung is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules, including the overriding principle that information which is expected to be price-sensitive (Inside Information) should be announced promptly and to prevent selective or inadvertent disclosure of Inside Information. Therefore, the Group conducts the handling and dissemination of such Inside Information in accordance with the "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission in June 2012 and adopted the Policy on Inside Information on 1 January 2013. Members of senior management are identified and authorized to act as spokespersons and respond to related external enquiries.

The Group's position in the Hong Kong market as a blue chip stock with sizeable market capitalization and a high degree of liquidity is affirmed through the continued inclusion of our stock in some of the most important benchmark indices. The stock is a constituent member of the Hang Seng Index, MSCI Index Series, FTSE4Good Index Series, Dow Jones Sustainability Asia Pacific Index and Hang Seng Corporate Sustainability Index Series.

In 2012, the Board confirmed that there were no significant changes made to Li & Fung's bye-laws affecting its operations and reporting practices. Details of the last shareholders' meeting, key calendar events for shareholders' attention as well as share information, including market capitalization as of 31 December 2012, are set out in the "Information for Investors" section on page 58 and on our corporate website.

The Group has received widespread acclaim from international business and financial magazines, which reflects the efforts it places on effective communications. In 2012, Li & Fung received a number of recognitions from the wider business community, including being selected as one of *Forbes*' "Global 2000: The World's Biggest Public Companies", one of *Forbes Asia's* "Fabulous 50" in Asia and made the *Financial Times*' "FT Global 500". The Group was also named as having "Best Investor Relations by Hong Kong Company" by *Corporate Governance Asia*'s Asian Excellence Recognition Awards 2012, and it received "The Asset Corporate Platinum Award 2012" from *The Asset* magazine.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome, and they can be addressed to the Group Corporate Communications and Investor Relations Department by mail or by email at *ir@lifung.com.hk*.

INFORMATION TECHNOLOGY

Investments in 2012 were made to support business growth and on strategic platforms for supporting core operations, process efficiency and information transparency.

SUPPLY CHAIN COLLABORATION

The vendor portal continues to be a strategic platform and was further extended to freight forwarders, carriers and banking processes. During the balance of the Three-Year Plan 2011–2013, additional functionality will be added to streamline the processes for the vendors. The customer portal was launched to provide a simple online access to applications and information and will be further extended. In support of the distribution business PLM and MRP systems were implemented, while logistics growth was supported by ongoing investment in radio frequency (RF) technology. Voice based and put to light mobile picking solutions will be introduced to further improve efficiencies within distribution centers as well as rolling out further transportation management systems.

Making information more easily accessible continued to be a focus as the dashboards for decision support were enhanced and extended to mobile platforms. Upgrades and enhancements will be made in the balance of the Three-Year Plan 2011–2013 for both internal and external information needs of our users, customers and partners.

To compliment the successful and increasing usage of IP enabled voice and video platforms, emersive technology was introduced in the form of Telepresence. This provides a close to real life experience for our users and customers in a face to face meeting on line. We will continue to invest to provide quality of communication, while leveraging our existing networks, to provide a real alternative to travel.

SERVICE AND INFRASTRUCTURE IMPROVEMENTS

As part of our continuous improvement and End User Experience Programs, investments were made in areas of Big Data, Storage, end point management and mobile device integration, specifically to enable users working out of multiple offices or on the road seamless and integrated access to the Company's systems.

CORPORATE GOVERNANCE AND BEST MANAGEMENT COMPANY AWARDS/RECOGNITIONS

CURRENT THREE-YEAR PLAN 2011-2013
PREVIOUS THREE-YEAR PLAN 2008-2010

2008

- **"Corporate Governance Asia Recognition Awards 2008"** *By Corporate Governance Asia Journal*
- **"The World's Most Influential Companies"** *By BusinessWeek* in December 2008
- **"Fabulous 50"** *By Forbes Asia* in September 2008
- **"The Asset Corporate Governance Awards 2008"** *By The Asset* magazine
- **"Hong Kong's Best Managed Company – No.4"** *By FinanceAsia* survey in June 2008
- **"50 for 2012" Companies** By Morgan Stanley in December 2008

2009

- **"Global 2000: The World's Biggest Public Companies"** Ranked number 888 in *Forbes*'; April 2009
- **"The Asset Corporate Platinum Award 2009"** For all round excellence in financial performance, corporate governance, management, social responsibility, environmental responsibility, and investor relations *by The Asset* magazine
- **"Long-term Vision – No.4", "Innovation – No.5", "Most-admired Company – No.9" and "Corporate Reputation – No.9"** In Hong Kong *by Wall Street Journal Asia's* "Asia 200 Most-admired Companies Survey" in September 2009
- **"The World's Best Companies – Top 40"** *By BusinessWeek* in October 2009
- **"Fabulous 50" Companies"** *By Forbes Asia* in September 2009
- **"Asia's Best-Managed Companies 2009"** Named Large-Cap Corporate of the Year, Hong Kong in *Asiamoney's* awards; December 2009
- **"Corporate Governance Asia Recognition Awards 2009"** *By Corporate Governance Asia Journal*
- **"FT Global 500" Companies** *By Financial Times* in September 2009
- **"Hong Kong Corporate Governance Excellence Awards 2009"** Sponsored by the Chamber of Hong Kong Listed Companies

2010

"Most convincing and coherent strategy – No. 3" and "Best corporate governance – No. 5" in Hong Kong
By Euromoney's "Asia best-managed companies" poll in January 2010

"Fabulous 50" Companies
By Forbes Asia in December 2010

"Hong Kong Best Managed Company – No. 2" and "Hong Kong Best Corporate Governance – No. 4"
By FinanceAsia magazine's poll

"The Asset Corporate Platinum Award 2010"
For all round excellence in financial performance, corporate governance, management, social responsibility, environmental responsibility, and investor relations by The Asset magazine in December 2010

Ranked No. 2 in Asia (ex-Japan) and Hong Kong large caps companies in corporate governance ranking surveyed by CLSA and ACGA in September 2010

"Asia's Best-Managed Companies 2010"
Named Large-Cap Corporate of the Year, Hong Kong in Asiamoney's awards in December 2010

"Corporate Governance Asia Recognition Awards 2010" and "1st Asian Corporate Director Recognition Awards 2010" to Dr Victor Fung
By Corporate Governance Asia Journal in 2010

2012

"3rd Asian Corporate Director Recognition Awards 2012" to Mr Bruce Rockowitz
By Corporate Governance Asia Journal in May 2012

"Fabulous 50" Companies
By Forbes Asia in 2012

"Global 2000" Companies
Ranked No. 612 in Forbes in May 2012

"Hong Kong Corporate Governance Excellence Awards 2012"
Sponsored by the Chamber of Hong Kong Listed Companies

"FT Global 500" Companies
By Financial Times in 2012

"The Asset Corporate Platinum Award 2012"
For all around excellence in financial performance, management, corporate governance, social responsibility, environmental responsibility and investor relations by The Asset magazine in December 2012

2011

"Corporate Governance Asia Recognition Awards 2011"
By Corporate Governance Asia Journal in April 2011

"FT Global 500" Companies
By Financial Times in 2011

"The Asset Corporate Platinum Award 2011"
For attaining rigorous standards in financial performance, management acumen, corporate governance, social responsibility, environmental responsibility and investor relations by The Asset magazine in December 2011

"Global 2000" Companies
Ranked No. 808 in Forbes in 2011

SUSTAINABILITY

OVERVIEW

In today's globalized world, businesses such as ours grow by responding to new opportunities, addressing complex challenges and innovating to deliver our products and services responsibly for the benefit of our business, stakeholders and communities around the world. Our operations span over 40 economies and 2012 marked the first full year of integrating our Trading, Logistics and Distribution networks.

How we address risk in our business and meet the needs of our stakeholders is evolving and requires us to consider the social and environmental aspects and conditions of where we source, which materials are used in our products, the conditions under which they are made and how they are delivered and consumed. In 2009 we formalized our approach to addressing these important issues in our comprehensive Sustainability Strategy. For three full years now, our Strategy has been engaging all of our colleagues globally to enhance our performance in that respect. It guides us to improve social, environmental and economic conditions in our supply chain, reduce the environmental footprint of our own operations, enhance the health and well-being of our colleagues, and contribute to the sustainable development of the diverse communities where we operate. To drive specific actions, we have 10 Commitments that cover all the areas of our Strategy and include quantitative targets that motivate us to improve and help us measure our progress. Our performance is also reviewed quarterly by the Risk Management and Sustainability Committee of our Board.

2012 was a year of deepening our initiatives to reduce our environmental footprint, to formalize our approach to conducting business ethically and responsibly for our own operations and in our supply chain, and to engage our multi-stakeholders. We continued to invest and support our colleagues to be more resource efficient and, based on the results of a global survey, to measure the contributions that we are making with our sustainability initiatives and our engagement with the communities in our global network.

We rolled out our updated *Code of Conduct and Business Ethics* for our colleagues, which is available on our website and supported by policies and guidelines, internal training and awareness-raising initiatives. In 2012 we launched "The Ethical Zone", an internal platform for sharing practical examples and solutions on how to respond to potential ethical dilemmas. In response to the feedback we received from our 2011 global employee engagement survey, we launched our Connect, Appreciate, Respond and Encourage (C.A.R.E.) program. A variety of C.A.R.E. activities were launched to engage and support our colleagues, ranging from handbooks, enhancements to employee communications through our One Family intranet portal, learning events and social activities, to a new, online performance review and professional development management system for all of our colleagues.

We also expanded our collaboration and partnerships with our suppliers, customers and industry partners on supply chain sustainability. In January, we launched our revised *Code of Conduct for Suppliers* and its companion *Supplier Compliance Manual*, which are based on industry standards and clearly outline the Standards required for doing business with Li & Fung. To support the roll out, we conducted internal training for our global compliance and sourcing colleagues, we expanded the training and guidance that we provide to our suppliers and we partnered with key customers on tailored programs for strategic suppliers. These programs have focused on issues of particular concern and relevance in our sourcing countries, with topics ranging from working hours, underage labor and fire safety to environmental efficiency and lean manufacturing.

While we have made progress in integrating sustainability in our own operations and our supply chain, we recognize that this journey is long and the challenge bigger than we alone can address. Occurrences such as the tragic fire at the Tazreen garment factory in Bangladesh in November bring to the forefront the need to raise standards across the industry, with workplace safety placed above all other considerations. In 2013 and going forward, we will continue to collaborate with the relevant multi-stakeholders to improve standards and working conditions, to source from suppliers that are committed to improving their workplace safety and sustainability performance and to providing focused resources to support these ongoing priorities.

Highlights of our sustainability initiatives and achievements in 2012 are shared below.

ENVIRONMENT

As part of our Sustainability Strategy, we seek opportunities to efficiently manage the environmental footprint of our own operations and those of our suppliers. Climate change and population growth are contributing to the increasing costs of resources, particularly as energy, water and raw materials become increasingly sensitive and scarce in supply. Changes in weather patterns and the increasing severity of storm events also have the potential to impact on the sourcing, distribution and delivery of our goods and services. Addressing these risks as our operations expand globally is challenging; we therefore focus on reducing our impacts by continually looking for opportunities to be more efficient, and to source and use environmentally-responsible materials, equipment, building materials, services, etc.

Key actions taken within our own operations are shared in this section and those to support our suppliers are outlined in the next. The majority of the implemented initiatives that are discussed below apply to our Trading network. Examples from our Logistics and Distribution networks are also provided and our reporting of their performance will expand in the future.

ENERGY AND CARBON

Since conducting an Investment Grade Audit (IGA) of our headquarters in Hong Kong in 2010, and implementing best practices in our global offices throughout 2011 and 2012, our absolute consumption and emissions have increased as our operations have expanded. However, the intensity of our energy consumption has decreased by 19% by area and of our carbon emissions by 23% by area (m^2). We have implemented a number of energy-saving initiatives, that involved both capital investment and behavioral change, including:

- Progressively retrofitting T-8 and halogen lighting with energy-efficient LED, T-5 and CFL alternatives and maintaining appropriate lux levels;
- Optimising performance and energy-efficient retrofits of chillers;
- Turning off lights, computers, monitors and printers when not in use;
- Implementing an automatic computer and lighting shutdown policy outside of working hours;
- Installing energy-efficient servers, photocopiers, printers and other equipment;
- Maintaining office and server room temperatures at levels that minimise energy use;
- Using renewable energy where feasible; photovoltaic panels generate a portion of our Istanbul office's electricity demand;
- Implementing our *Green Meeting Guidelines* to reduce energy use, consumption and wastage during internal and external meetings, and increasing our use of video conferencing to reduce face-to-face meetings; and
- Implementing our *Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors,* as outlined below.

In 2012 we invested in our second global round of energy efficiency upgrades. Our previous investments, in addition to the environmental benefits of reduced energy consumption that they brought, enable us to save approximately US$490,000 per year in energy costs. Adding on the new investments in 2012, we estimate that we save approximately US$160,000, in addition, in avoided energy costs per year.

Li & Fung's material carbon emissions from vehicular transport arise from our Logistics network where ongoing improvements in route planning help us to achieve cost-effective deliveries for our customers and reduce carbon emissions. As part of our Lean Transport initiative, which we have been implementing for the past two years, we seek to: maximize vehicle loads; minimize truck mileage; consolidate customer deliveries; and optimize the proximity of Distribution Center (DC) facilities to supplier and customer locations. We continue to apply our supply chain network design expertise to support our customers' market expansion strategies with a view towards reducing their carbon footprint. We have also explored the feasibility of using alternative fuels such as compressed natural gas and liquid petroleum gas for truck operations and will switch to alternatives when the infrastructure required to support such operations is sufficiently developed in the countries where we operate in Asia.

Reducing our carbon footprint and improving our carbon intensity through the use of cleaner and more efficient energy and fuel sources and equipment, will remain at the top of our agenda for our own operations and for those of our suppliers.

Our energy consumption metrics and our Scope 1 and 2 GHG emissions for the years 2010-2012 for our Trading network are presented in the table below. This data comprises part of our annual disclosure through the Carbon Disclosure Project.

WATER AND WASTE

In the majority of the countries where we and our suppliers operate, water is becoming an increasingly scarce resource. Our approach to address this challenge has been to be more efficient in our use of water and to encourage the responsible use of water.

For our operations that are primarily office-based, we continue to encourage responsible water use, to support our colleagues to reduce water consumption and to install water-efficient faucets, fixtures and fittings. In 2012, our water consumption intensity reduced by 2% from our 2010 per person consumption level. Our DCs, warehouses and manufacturing facilities have also been implementing water-efficiency initiatives and this includes, for example, our facility in Thailand that replaced its reverse osmosis system with a deionizing water treatment plant that reduces water consumption and brings a net cost saving of US$6,500 per year.

As in previous years, we continued our drive to reduce paper consumption, as paper is a significant portion of our offices' waste stream, and to use paper made from sustainably managed and Forest Stewardship Council (FSC) certified sources. As with other resources, our absolute A4 paper consumption increased in 2012 reflecting the expansion of our business operations. However we have reduced our consumption per person by 20% since our baseline year of 2010. We also again maintained our "Class of Excellent" Wastewise Label in Hong Kong.

Based on the results of our survey on the implementation of our Sustainability Strategy, our global offices have implemented a number of projects to reduce waste, including the widespread use of filtered water over disposable bottles, paper reduction initiatives and the recycling of materials based on what is feasible in our diverse locations. We will continue to seek opportunities to purchase items with sustainability features, reduce paper, minimize waste and enhance recycling. We aim to enhance the sustainability of our purchasing and to review our waste generation trends and identify actions to reduce and further divert materials from disposal.

A summary of our environmental metrics is provided in the table below.

ENVIRONMENTAL METRICS COMPARISON FOR 2010–2012[1]

	2010	2011	2012	2012 compared against 2010 baseline	
		Actual Consumption tons CO_2		Actual Change tons CO_2 equivalent (+/–)	Intensity Reduction CO_2/m^2
Carbon (Scope 1 & 2)	35,630	32,120	34,795	-835	-23%
		kWh		**kWh (+/–)**	**kWh/m²**
Electricity	47,504,489	45,405,947	48,671,935	1,167,446	-19%
		m³		**m³ (+/–)**	**m³/headcount**
Water	105,310	124,064	125,834	20,524	-2%
		reams		**reams (+/–)**	**reams/headcount**
Reams	136,678	149,072	133,686	-2,992	-20%

1 *The environmental metrics include data for our Trading network, which has office-based operations in Bangkok, Central America, Hong Kong, India, Indonesia, Istanbul, Korea Hub, Shanghai, Shenzhen and Taiwan, and those of our Distribution network based in Europe and the USA.*

SUSTAINABLE BUILDING AND RENOVATION

Integrating sustainability features into how we design, build and renovate our spaces – our offices, warehouses, distribution centers and manufacturing facilities – is an integral part of our effort to reduce our environmental footprint, and to improve the health and safety of the working environment for our colleagues and communities. In 2011 we consolidated elements from leading, international building guidance and our own experience into our *Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors*. These user-friendly guidelines continue to support our offices and facilities around the world to adopt LEED[2] elements whenever feasible and we also shared this guidance with our suppliers. In our experience and on average, our LEED projects have resulted in the following key benefits:

- 15% reduction in energy consumption from the use of energy-efficient lighting, including T-5 tubes and LED lighting;
- 40% reduction in water consumption by using sea water for flushing and water-efficient faucets, fixtures and fittings;
- All air conditioning and HVAC systems do not use R410A or CFC refrigerants, and separate control zoning is installed in general offices with individual thermostat controls and occupancy sensors;
- Dedicated collection and storage locations for recyclables (e.g. paper, corrugated cardboard, glass, plastics and metals);
- 30% of the total furniture value comprises reused furniture items (e.g. workstations, cabinets, chairs, etc.);

2 *Leadership in Energy and Environmental Design (LEED).*

- Use of environmentally-responsible construction materials (e.g. low-VOC paints, coatings, sealants and adhesives, and recycled-content materials, such as carpets, gypsum board, acoustic tiles, etc.); and

- Improved indoor air quality (IAQ) by installing carbon dioxide (CO_2) sensors that actively measure CO_2 content and control the delivery of fresh air, by conducting air "Flush Outs" during construction and prior to occupancy to minimize air pollutants, and by segregating photocopying areas with closing doors and separate exhausts to control indoor air pollutants.

In 2012, we neared completion of the renovation of our new offices in the Empire State Building in New York. We have applied for certification of the 8th and 9th floors to LEED Platinum and the 7th floor to LEED Gold. As previously reported, this adds to our existing 10 global offices that have been certified to LEED, or BREEAM[3] in the United Kingdom.

In our Logistics network, our DCs have been implementing measures to reduce their environmental footprint over the years. In 2012, our Rui Fang DC was recognized as the first such facility in Taiwan to be certified by the Taiwan Green Building (EEWH system) as a Silver Class Green Building. Key features of this project include: maximized use of natural lighting and energy-efficient T-5s; installation of high-efficiency induction lighting in loading bays; rainwater collection to reduce consumption of municipal water; and use of environmentally-responsible materials in the construction of the facility.

SUPPLY CHAIN RESPONSIBILITY AND OUR PARTNERSHIPS

Li & Fung's most significant opportunities and risks are in the supply chains where we engage suppliers to manufacture products for our customers. In 2012 we began the year by launching our updated *Code of Conduct for Suppliers and Supplier Compliance Manual* and then by following up with over 375 training sessions for over 5,000 of our suppliers and close to 4,000 of our colleagues. This marked a significant milestone in our sustainability journey in that both our updated Standards, which are in line with industry requirements, and the practices that our suppliers are expected to implement to meet these Standards, are clearly outlined. We continue to be a strong advocate for responsible sourcing within our business and with our customers, suppliers and industry partners. Through collaboration we can more effectively address the risks in the supply chain, effect change and grow business opportunities in areas that contribute to better working and environmental conditions and stronger and healthier communities.

To support the rollout of our updated *Code of Conduct*, we developed standard operating procedures and a variety of resources for our global Vendor Compliance (VC) team of 159 people and our business divisions around the world to screen, monitor, audit and assess the performance of our suppliers. We also developed guidance materials and practical tools for our suppliers to comply with our requirements and to improve their operational performance. These resources, which are outlined below and are translated in local languages, cover issues and risks associated with business operations and labor, health and safety, environmental and security practices.

- The *Sustainability Resource Center* website for our suppliers to access training schedules and a suite of resources to assist them to improve performance.

- *Supplier Compliance Manual* that outlines how to meet our *Code of Conduct for Suppliers*.

- *Major Issues Tutorial* and *Zero Tolerance Issues Tutorial* that provide detailed guidance on how to address issues and what is required to demonstrate compliance with LF Standards.

3 *Building Research Establishment Environmental Assessment Method (BREEAM).*

- Comprehensive *Occupational Safety & Health Toolkit* to help suppliers to adopt safe and healthy systems and practices in their workplaces.

- *Sustainable Suggestions for our Partners*, which are "how to get started" modules on energy and water efficiency, GHG reduction, sustainable buildings, waste management, lean manufacturing, human resource management and occupational health and safety.

- *Digital Learning Units for Managers and Workers*, which are a series of short, user-friendly and practical videos developed with the support of the Fung Academy[4]. The first in the series, on fire safety, was launched in late 2012 with more to come on topics ranging from working hours to chemical management and lean manufacturing.

As highlighted below, in 2012 we expanded our involvement with several key industry initiatives that bring our customers, peers and industry associations together to work collectively to set standards and effect change, and we collaborated with our customers and non-governmental organizations (NGOs) to implement focused programs that address the particular challenges of our industry and the specific countries where we operate.

- As a signatory to *As You Sow* we engage with our suppliers to not knowingly source cotton from Uzbekistan where forced and child labor is a significant concern.

- We partner with our customers to raise awareness and train our colleagues and suppliers on the requirements of new legislation, such as the *California Transparency in Supply Chains Act* to combat human trafficking.

- We support factories in Cambodia, Haiti, Indonesia Jordan and Vietnam to improve labor conditions as part of the International Labor Organization's *Better Work* program;

- We partnered with Business for Social Responsibility (BSR) and the Fung Academy to organize a Water Summit to raise awareness of water scarcity in China and to share best practices for improving water efficiency.

- Recognizing that healthy employees contribute to the health of a business, we work with BSR, the Fung (1906) Foundation Limited and our customers to implement the *HER Project* in 12 factories in Bangladesh, China, India, Indonesia and Pakistan. The project empowers women with the knowledge and skills to improve their health, living conditions and livelihoods.

- We are a founding and active member of the Sustainable Apparel Coalition (SAC), supporting the development and pilot testing of its *Apparel Sustainability Index Tool* for measuring the environmental impact of products in our supply chain.

- We participate in the Global Social Compliance Program (GSCP), supporting its efforts to improve working and environmental conditions in the global supply chain.

We also implemented several focused programs in collaboration with some of our key customers that we will continue to expand and replicate in our supply chain. Examples include:

- Starting in early 2012, an electrical and fire safety training program in Bangladesh that includes supplier workshops, onsite risk assessments and focussed training on electrical and fire safety in factories. This ongoing program is being expanded in 2013.

- Working with community-based organizations on the three-year *Hemaya Project* to empower Jordanian women to work in the Jordanian garment sector, improve workplace relations, reduce poverty and improve livelihood options for local women and families.

- Supported by the Fung Academy[4], implementing a bespoke energy management program for up to 20 logistics warehouses/distribution centers and apparel and footwear manufacturers to optimize their energy use without affecting production and to lower overall costs and impacts on the environment. Each participating operation receives an energy consumption assessment, an onsite audit, and training and support to develop and implement initiatives to reduce energy consumption and improve efficiency.

- Conducting comprehensive environmental, chemical safety, health and safety and fire preparedness assessments and carbon footprint measurements for 29 apparel factories in China, Taiwan, Korea, Bangladesh, India, Indonesia, Cambodia, Vietnam, Malaysia and Nicaragua. Resources are also provided to improve performance, implement actions and regularly report on environmental and carbon metrics for a key customer.

- Supporting toy manufacturers to implement "lean and green manufacturing" in China, including how to identify technical and financial resources to improve efficiencies and use sustainable materials.

- Sourcing environmentally-responsible products, including garments made from organic cotton and recycled yarn, picture frames and furniture made from FSC certified wood and beauty products that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants.

We also recognize that significant efforts, in collaboration and in partnership with our stakeholders, continue to be required to improve labor practices, working conditions and to reduce environmental impacts in the supply chain. This need was sadly reinforced by the tragic death of workers in a fire at the Tazreen garment factory in Bangladesh. We participated in aid efforts for immediate relief and matched the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)'s financial assistance to each family of every victim.

The safety of workers in our supply chain is a priority for Li & Fung. Safety, including fire safety, is embedded in our approach to sourcing and, with our *Code of Conduct for Suppliers*, is integral to our compliance and sustainability program. In Bangladesh, specifically, we have worked with suppliers to upgrade fire safety since early 2012. Initiatives include in-depth training for factories on how to enhance their management systems to build sustainable solutions for safety at factories. We also piloted and launched in Bangladesh a series of videos on fire safety. These innovative videos explain clearly and practically why it is essential for the survival of workers and the business to adopt proper fire safety practices. They are core to our continuing efforts across our network to increase education and training in this area.

Improving factory procedures and systems, and enhancing awareness of good sustainability practices, is an integral part of a long-term process to raise industry standards, and one which requires sustained commitment by multiple parties. We will continue to evolve our programs to meet market needs and local conditions, and work with the industry to share best practices and accelerate this change.

OUR PEOPLE

As of the end of 2012, Li & Fung had a total workforce of 28,465, of whom 4,361 were based in Hong Kong and 24,104 were located overseas and in mainland China. Total manpower costs for 2012 were US$1,324 million, compared with US$1,227 million for 2011.

LEARNING AND DEVELOPMENT

Li & Fung has a clear vision and strategy in building people competencies and talents to drive organizational capability for long-term business sustainability and success. In 2012, we put significant resources into organizational learning and development that supported business growth.

4 The Fung Academy, an organizational unit of Fung 1937, provides Leadership Development and Sustainability programs aimed at building organizational readiness and capacity for all units of the Fung Group including outreach programs to the firm's supplier base. The supplier programs are aimed at facilitating our supplier's commitment to environmental and social best practices, leading to manufacturing excellence.

One part of our people development strategies focused on building core expertise in Merchandising and Logistics, as well as leadership development. In 2012, over 20,365 colleagues in 38 locations participated in 723 in-house learning programs. The full Merchandising Curriculum elevated the organization's technical expertise as well as individual confidence in serving our customers. The curriculum covers over 103 topics on product and production knowledge, productivity improvement, processes and practices, and performance enhancement skills. The delivery format includes both formal classroom training and self-paced online learning modules. We offered 276 face-to-face formal learning sessions and 16 e-modules, with 8,618 Merchandising colleagues participating throughout the year.

We foster leadership at all levels. Besides the Executive Leadership Program delivered through the MIT Sloan School of Management and The University of Hong Kong which ran for its fourth year, we launched a new Advanced Leadership Program delivered through Stanford University and The University of Hong Kong. This program is aimed at Divisional leaders and we ran 11 classes in 2012 with 517 senior managers attending from 50 different locations. Recognizing that front-line managers also benefit from an understanding of leadership fundamentals, we provided access to on-demand learning for them to succeed in their multi-tasking roles. We introduced a New Manager Program and ran 7 classes in 4 locations with 160 new Managers attending. In 2012, Li & Fung participated in the corporate Program for Management Development (PMD) for a third successive year, focusing on attracting and developing talent for future business leadership positions. A total of 19 Management Associates representing 13 nationalities from around the world participated in a one-year, structured, intensive development program that included corporate orientation and training, rotational assignments in the Group's core businesses, and business education programs.

Besides formal classroom experiences, we believe that all learning should be work related. Hence, we develop our leaders through on-the-job experiences. These developmental opportunities are a critical part of our overall leadership development philosophy which includes giving challenging job assignments, working on real-life projects, holding them accountable through a rigorous performance measurement system and most importantly of all, having them as "teachers" to transfer their knowledge in different work contexts. At Li & Fung, they are "Learning Champions" and we have over 162 of these leaders around the world.

With the increase in size of the company, our investment in a robust learning platform, called "My Career", allows a larger group to benefit from real-time, self-paced learning. Besides formal classroom and e-learning delivery, colleagues can learn through the use of help materials, job-aids, checklists, access to subject matter experts, an online information search engine, and peer collaboration. We had a record of over 37,304 colleague visits to access these informal learning activities.

The Group is undertaking considerable effort to create an environment where our colleagues are able to develop their skills and are inspired and motivated to be the best they can be. This will be continued as a key business imperative.

EMPLOYEE ENGAGEMENT

We launched our first global engagement survey in 2011 and a number of common themes emerged across the company, in different businesses and countries. These themes have helped us to set a new direction for how we communicate, support individual career growth and take care of our people. The company has embarked on a journey for achieving excellence in our workplace.

In 2012, we launched some key initiatives around the themes of Communication, C.A.R.E. and Career, with 56 of our senior executives taking on the role of "Engagement Champion". Our champions spearheaded activities in their respective businesses and shared examples of employee engagement in action, and hosted a variety of communication and engagement sessions, such as town hall meetings, skip-level group conversations and briefing seminars. The global C.A.R.E. initiative was another well-received action taken in response to the survey feedback. It also included "lunch and learn" sessions to enhance the health and well-being of our colleagues, the launch of a new internal website to increase employee involvement, production of a video to show our engagement journey and destination, and the sharing of over 16,000 copies of our C.A.R.E. handbook, which highlights our C.A.R.E. values, behaviors and stories, to our colleagues.

Li & Fung will continue its engagement efforts because we believe that high levels of employee engagement are linked to superior business performance, including increased productivity, profitability and customer satisfaction.

OCCUPATIONAL HEALTH AND SAFETY, WELL-BEING AND HUMAN RIGHTS

The health and well-being of all of our people globally is at the top of our agenda. We strive to continually provide a safe, healthy and respectful workplace for our colleagues. We see this as part of all that we do and it requires us to adhere to our policies and codes, to raise awareness, share tips and experiences, and to provide training for our colleagues.

We continue to share our *Useful Tips* on health and well-being on a daily basis with our colleagues through email messages and our internal e-platform. These tips play a vital role in sharing information and they cover issues relevant to occupational health (e.g. stretching exercises, ergonomics) and well-being (e.g. healthy eating, stress management).

Within our Logistics and Distribution networks, we also implemented formalized occupational health and safety systems that include regular safety talks and training on topics such as workplace hazards, safe working practices and chemical management, as well as regular emergency preparedness training and drills. Facilities in our Distribution network in Indonesia, Malaysia and Thailand have all been certified to OHSAS 18001 and, of additional note, our facility in Thailand received the National Occupational Health and Safety Award from the Ministry of Labor's Department of Labor Protection in 2012.

As previously reported in 2011, we updated our *Code of Conduct and Business Ethics*, which confirms our commitment to uphold the International Labor Organization's *Declaration on Fundamental Principles and Rights at Work*, the UN Global Compact's *10 Principles* and the UN *Declaration of Human Rights*. As outlined in the Corporate Governance section of this report, the Code is accompanied by our Anti-Bribery Policy, Guidelines on Gifts, Entertainment and Hospitality and Guidelines on Whistle blowing/Reporting of Concerns. These were rolled out at the end of the third quarter of 2012 and this included: an initial 11, in-person training sessions to raise awareness of the Code and its importance in Hong Kong, Shanghai, Jakarta and Turkey, and the launch of a series of storyboards, known as "The Ethical Zone". Shared on our internal, One Family intranet, the stories illustrate the different elements of the Code and its related policies and guidelines with practical examples and solutions on how to respond to potential ethical dilemmas. New employees are also advised of the requirements of the Code during orientation and provided with their own copy. Implementation is supported by policies and guidelines for addressing the Code elements, including those on human and labor rights, in the acquisition of new businesses and in our ongoing recruitment, training, performance assessment, disciplinary and grievance processes.

Compliance with our Code is reviewed quarterly by the Risk Management and Sustainability Committee of the Board and audited by our Corporate Compliance division, which reports any material non-compliance directly to the Board. In 2012 the first formal audits of compliance were conducted, which included the human and labor rights and other areas of the Code.

COMMUNITY ENGAGEMENT

A key element of our Sustainability Strategy is to positively impact the communities where we live and work, through our community engagement initiatives. Our strategic focus is to maximize impact through activities aligned with business and social needs in each global market. Colleague-driven initiatives, together with globally-driven campaigns, focus our efforts to support communities, care for the environment, and build human capital.

We amplify and extend positive outcomes and enhance results by working with community partners around the globe, and by encouraging colleagues to spread awareness and action through their work and personal networks.

This year we significantly strengthened our management of community engagement to support and leverage all that our colleagues have been doing over the years. We expanded our activities and provided colleagues with even more tools and support to carry out community engagement activities, and to report back results.

In 2012, we organized global campaigns across all of our offices and with the support of the Fung (1906) Foundation Limited (Fung Foundation) to engage even more colleagues and expand our reach into more communities. Our global campaigns included: a 6-month Ocean Awareness and Action Campaign; Red Décor Day and Blood Drives to support humanitarian causes; Breast Cancer Awareness Month; and Movember to support Prostate Cancer Awareness Month. To highlight but a few of our many activities in 2012, we also:

- Empowered community members through skill-building in India (i.e. life skills and product-making lessons for prisoners and disabled individuals);

- Repaired homes and schools in Guatemala, Hong Kong, India and Shanghai, through NGOs such as Habitat for Humanity and other locally-identified organizations;

- Supported flood relief in the Americas;

- Planted trees in Hong Kong, India, Pakistan and Shanghai, and coral in Thailand;

- Had expert speakers share their knowledge about cancer prevention and healthy living, over-fishing and marine conservation;

- Worked hands-on with children, elderly and disabled individuals in Bangladesh, Cambodia, Indonesia, Israel, Philippines, Shanghai, Singapore, Taiwan, and Thailand (e.g. craft projects for resale to raise funds for projects with children);

- Sponsored children in Bangladesh, Cambodia and China under the Fung Foundation's 3-year plan theme of "Children and Youth", to support education and local community building; and

- Provided food, clothes, toys and computers to communities in need in Bangladesh, Hong Kong, India, Pakistan, Portugal, Sri Lanka, Turkey, the USA and Vietnam, through in-kind donations and, where possible, leveraging networks to increase our impact.

Our community engagement activities go hand-in-hand with our employee engagement "C.A.R.E." program, as team-building exercises enhance our colleagues' experiences in communities and contribute to the transformation of our workplaces. They therefore also support our efforts to enhance the health and well-being of our colleagues and our communities, add to our colleagues' personal and professional development, help attract and retain talent, and are an integral part of Li & Fung's core values.

In 2012, over 14,200 of our employees volunteered over 33,400 hours to support 170 environmental and social initiatives around the world. Our global colleagues also raised over US$183,000 to support communities, with the Fung Foundation providing over US$205,000 to further support some of these projects.

RECOGNITION

As a signatory to United Nations' Global Compact (GC) since 2002 we have been publically disclosing our continual progress to implement the UNGC's *10 Principles* into our business. We also share information on a range of other dimensions of our sustainability performance and continue to be included in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series and the Hang Seng Corporate Sustainability Index. Locally, we are also recognized as a Caring Company under the Hong Kong Council of Social Services' recognition scheme.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Victor FUNG Kwok King

Honorary Chairman
Chairman of Risk Management and Sustainability Committee

Aged 67. Brother of Dr William Fung Kwok Lun and father of Mr Spencer Theodore Fung. Group Chairman of the Fung Group (formerly known as Li & Fung Group), a Hong Kong-based multinational which comprises major subsidiaries in trading, logistics, distribution and retailing. They include publicly-listed Trinity Limited, Convenience Retail Asia Limited and the Company. Honorary Chairman of the Company after stepping down as Group Chairman since May 2012. Joined the Group in 1973 as Manager and became Managing Director of the Group's export trading business in 1977. Became Group Managing Director in 1981 and Group Chairman in 1989. A director of King Lun Holdings Limited and Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited), which are substantial shareholders of the Company. Holds Bachelor and Master degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. An independent non-executive director of BOC Hong Kong (Holdings) Limited, Chow Tai Fook Jewellery Group Limited (Hong Kong) and Koc Holding A.S. (Turkey). Independent non-executive director of China Petrochemical Corporation (People's Republic of China) since April 2012. Founding Chairman of the Fung Global Institute, an independent non-profit think-tank based in Hong Kong. Honorary Chairman of the International Chamber of Commerce, and a member of the WTO Panel on Defining the Future of Trade since April 2012. A member of the Chinese People's Political Consultative Conference and a vice chairman of China Centre for International Economic Exchanges. Appointed as a member of the Economic Development Commission of the Hong Kong Government recently. Chairman of the Hong Kong Trade Development Council (1991–2000), the Hong Kong representative on the APEC Business Advisory Council (1996–2003), Chairman of the Hong Kong Airport Authority (1999–2008), Chairman of The Council of The Hong Kong University (2001–2009), Chairman of the Hong Kong – Japan Business Co-operation Committee (2004–2010), Chairman of the Greater Pearl River Delta Business Council (2004 – end of February 2013) and a member of the Commission on Strategic Development of the Hong Kong Government (2005 – June 2012). Formerly served on the boards of CapitaLand Limited (2005–2010), Integrated Distribution Services Group Limited (from 2003 until privatization in October 2010), and Baosteel Group Corporation (from 2005 until expiry of the term of directorship end of January 2013). In 2003 and 2010, the Hong Kong Government awarded Dr Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

William FUNG Kwok Lun

Group Chairman

Aged 64. Brother of Dr Victor Fung Kwok King and uncle of Mr Spencer Theodore Fung. Group Chairman since May 2012. Executive Deputy Chairman from 2011 to May 2012 and before that, Group Managing Director from 1986 to 2011. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degrees of Doctor of Business Administration, *honoris causa*, were conferred by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University. An independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. An independent director of Singapore Airlines Limited. A non-executive director of various companies within the Fung Group (formerly known as Li & Fung Group) including Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited), substantial shareholders of the Company. A director of the Fung Global Institute, an independent non-profit think-tank based in Hong Kong. Past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Pacific Economic Cooperation Committee. Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

Bruce Philip ROCKOWITZ

Group President and Chief Executive Officer

Aged 54. Group President and Chief Executive Officer since 2011. An Executive Director since 2001 and in 2004, took over day to day oversight of the Group's operations as President. In 1981, co-founded Colby International Limited, a large Hong Kong buying agent, and was the Chief Executive Officer until 2000 when Colby was acquired by Li & Fung. Member of the Advisory Board for the Wharton School's Jay H Baker Retailing Center, an industry research center for retail at the University of Pennsylvania. Board member of the Educational Foundation for the Fashion Industries, the private fund-raising arm of the Fashion Institute of Technology. A member of the Global Advisory Council of the Women's Tennis Association (WTA). Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating in Hong Kong, Singapore and Taiwan. An independent non-executive director of Wynn Macau, Limited. In December 2008, ranked first by Institutional Investor for the Asia's Best CEOs in the consumer category. In the years 2010 and 2011, ranked as one of the world's 30 best CEOs by Barron's. In 2011, received the 2011 Alumni Achievement Award from the University of Vermont. In 2012, named Asia's Best CEO at Corporate Governance Asia's Excellence Recognition Awards, and also presented with an Asian Corporate Director Recognition Award by the same organization.

Spencer Theodore FUNG

Group Chief Operating Officer

Aged 39. Group Chief Operating Officer since April 2012 and Executive Director since 2008, in charge of the global infrastructure of the Company. Before this, President of LF Europe, managing the Group's European distribution business. Joined the Group in 2001. An independent non-executive director of Swire Properties Limited since 31 December 2012. A member of the General Committee of The Hong Kong Exporters' Association, the Northeastern University Corporation and Young Presidents' Organization. Holds a Bachelor of Arts degree from Harvard College and Master of Science in Accounting and Master in Business Administration degrees from Northeastern University. A U.S. Certified Public Accountant. The son of Dr Victor Fung Kwok King, Honorary Chairman, and nephew of Dr William Fung Kwok Lun, Group Chairman.

Paul Edward SELWAY-SWIFT

Independent Non-executive Director

Chairman of Audit Committee and Nomination Committee

Aged 68. An Independent Non-executive Director since 1992. Chairman of Pure Circle Ltd, a producer of natural food ingredients, which is quoted on the London Stock Exchange. Also, Chairman of Atlantis Investment Management (Ireland) Ltd. Formerly, Deputy Chairman of HSBC Investment Bank PLC, a director of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong, Harvard International PLC and Temenos Group AG, Chairman of Singer & Friedlander Group PLC, a banking and investment management group, and Novae Group PLC, a specialist insurance group.

DIRECTORS (CONTINUED)

Allan WONG Chi Yun

Independent Non-executive Director
Chairman of Remuneration Committee

Aged 62. An Independent Non-executive Director since 1999. Chairman and Group Chief Executive Officer of VTech Holdings Limited. Co-founded VTech Group in 1976. Holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from the Hong Kong Polytechnic University. Deputy Chairman and independent non-executive director of The Bank of East Asia, Limited. An independent non-executive director of China-Hongkong Photo Products Holdings Limited. Awarded the Silver Bauhinia Star and the Gold Bauhinia Star in 2003 and 2008 respectively.

Franklin Warren McFARLAN

Independent Non-executive Director

Aged 75. An Independent Non-executive Director since 1999. Baker Foundation Professor and Professor Emeritus of Business Administration at Harvard University. Guest Professor and Co-Director of the China Business Case Center at Tsinghua University-SEM. A Professor at the Harvard Graduate School of Business Administration since 1973. Formerly, Faculty Chairman of Advanced Management Program and Chairman of Executive Education Programs. Graduated from the Harvard Business School with a doctorate. Senior Associate Dean from 1990 to 2004. An independent non-executive director of thinkorswim Group Inc from 2004 to 2009 and Computer Sciences Corporation from 1989 to 2012.

Martin TANG Yue Nien

Independent Non-executive Director

Aged 63. An Independent Non-executive Director since 2009. Former Chairman, Asia of Spencer Stuart & Associates, a global executive search consulting firm. An independent non-executive director of the publicly-listed CEI Contract Manufacturing Limited and China NT Pharma Group Company Limited. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

Benedict CHANG Yew Teck

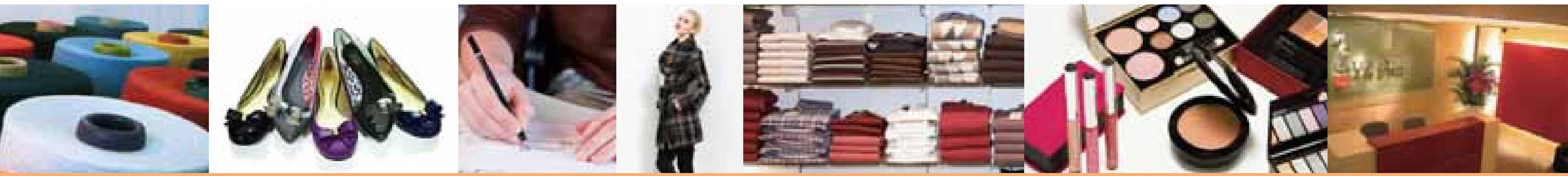
Non-executive Director

Aged 59. A Non-executive Director since 2011. Previously, group managing director of Integrated Distribution Services Group Limited ("IDS") which was privatized on 29 October 2010. A director of IDS from 2003 to April 2011. A director of Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited), a substantial shareholder of the Company. A non-executive director of Convenience Retail Asia Limited since 1 July 2012. Graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. Chairman of the Advisory Committee of the Li & Fung Institute of Supply Chain Management and Logistics of The Chinese University of Hong Kong.

FU Yuning

Independent Non-executive Director

Aged 56. An Independent Non-executive Director since 2011. Chairman of China Merchants Group Limited, China Merchants Holdings (International) Company Limited and China Merchants Bank Co., Ltd. Graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. Holds a Doctorate Degree in Mechanical Engineering from Brunel University, United Kingdom where he also worked as a Post-Doctorate research fellow briefly. Formerly, Chairman of China Merchants Energy Shipping Co., Ltd. and China International Marine Containers (Group) Co., Ltd., and formerly, also an independent non-executive director of Sino Land Company Limited, Integrated Distribution Services Group Limited and CapitaLand Limited.



GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

Aged 55. Group Chief Compliance Officer of the Company since 2011. Also, the Group Chief Compliance Officer of Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited), a substantial shareholder of the Company and of the Fung Group (formerly known as Li & Fung Group) of companies including Convenience Retail Asia Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. With 30 years of experience and held various financial and commercial positions within the Fung Group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the UK and the Middle East. A Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. A Fellow Member of the Chartered Institute of Management Accountants, UK.

CHIEF FINANCIAL OFFICER

Edward LAM Sung Lai

Aged 46. Chief Financial Officer of the Group since November 2012. Holds an MBA degree from The University of Chicago, *high honors*, and a Bachelor of Business Administration degree from The University of Texas at Austin, *highest honors*. Began his career with Coopers & Lybrand in U.S., and subsequently joined Morgan Stanley in New York. Returned to Hong Kong in 1998 with Morgan Stanley where he held a range of positions in mergers and acquisitions, as well as industry sector coverage for the Asia Pacific region. Joined Citi in 2006 to lead their Hong Kong investment banking business, and latterly headed the combined corporate and investment banking platform for Citi Hong Kong prior to joining Li & Fung. A U.S. Certified Public Accountant, and a member of Takeovers and Mergers Panel of Securities and Futures Commission of Hong Kong.

SENIOR MANAGEMENT FOR THE YEAR 2012

Henry CHAN

President of LF Products

Aged 62. President of LF Products managing the Group's hardlines principal business globally. Joined the Group in 1972. An Executive Director of the Company from 1992 to May 2009. Graduated from The University of Hong Kong with a Bachelor of Social Science degree. Holds an MBA degree from The Chinese University of Hong Kong. A member of The Hong Kong Institute of Directors and also a member of the advisory Board of the MBA Programmes of the Faculty of Business Administration, The Chinese University of Hong Kong.

Annabella LEUNG Wai Ping

President of LF Fashion

Aged 60. President of LF Fashion managing the Group's apparel and fashion accessories principal business globally. Formerly, the Regional Director of North Asia Apparel for Inchcape, a global sourcing network acquired by the Company in 1995. An Executive Director of the Company from 2000 to May 2010. Holds a Master of Science degree in Biology from Northeastern University. Served on various advisory boards in the Hong Kong Exporters' Association, Hong Kong Trade Development Council, Clothing Industry Training Authority, and Hong Kong Export Credit Insurance Corporation. Now serving as Chairman of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce and Economic Development Bureau.

SENIOR MANAGEMENT FOR THE YEAR 2012 (CONTINUED)

Richard Nixon DARLING

Vice Chairman of LF USA and LF Europe and President of DSG

Aged 59. Vice Chairman of LF USA and LF Europe responsible for external and strategic initiatives. Also directly oversees the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally. The founder of The Millwork Trading Co., Ltd (now known as "LF USA Inc."), a joint venture with Li & Fung that became a wholly owned subsidiary in 1999. Serves as Chairman of the Board of Directors of the American Apparel and Footwear Association and as a board member for "Fashion Delivers" and Board of Governors for the Parson's School of Design.

Marc Robert COMPAGNON

President of LF Sourcing

Aged 54. President of LF Sourcing overseeing the Group's global agency business for apparel and hard goods as well as the sourcing for the Group's distribution business. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was Chief Merchandising Officer for 17 years and was responsible for establishing Colby's global sourcing network and sales and marketing strategies. Holds a Bachelor of Science degree from the University of Vermont. Founding member of Cotton's Revolutions, and the Global Apparel, Footwear and Textile Initiative (GAFTI). Non-Executive Chairman of Cebu Dream Realized, INC, a hotel and restaurant group.

Dow Peter FAMULAK

Chief Executive Officer of LF USA and LF Europe

Aged 52. Chief Executive Officer of LF USA and LF Europe, managing the Group's distribution business in the U.S. and Europe. Joined the Group in 2000 at the time of the acquisition of Colby International Limited where he was an Executive Vice President. Former partner in the law firm of Baker & McKenzie, Hong Kong office where he worked from 1992 until he joined Colby. Graduated from the University of British Columbia with a BA Economics (Honours) and from law school at the University of Saskatchewan. A member of The Law Society of Hong Kong, The Law Society of England and Wales and The Law Society of British Columbia (Canada).

Emily MAK MOK Oi Wai

President of LF USA Sourcing

Aged 51. President of LF USA Sourcing, managing all Asia operations of LF USA. Joined the Group in 2000 with the acquisition of Colby International Limited where Emily was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. After that, managing the Group's department store, mass market, supermarket and specialty store apparel business in the Americas, Southern Hemisphere and Japan. Prior to her current role, the Chief Operating Officer of the DSG group of companies, a dedicated sourcing group servicing Wal-Mart globally. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

Joseph Chua PHI

President of LF Logistics

Aged 50. President of LF Logistics managing the Group's logistics, freight services, and supply chain management businesses. An Executive Director of Integrated Distribution Services Group Limited from 2004 to April 2011. Joined the Group in 1999. Graduated *magna cum laude* from the University of The Philippines with a Bachelor of Science degree in Industrial Engineering and attained an MBA degree with top honors from the same university. Member of Phi Kappa Phi and Pi Gamma Mu international honor societies. Co-convener of the Li & Fung China Advisory Council. Chairman of GS1 Hong Kong. Director of GS1 Management Board. Member of the Advisory Committee, Centre for Marketing and Supply Chain Management at Hong Kong University of Science and Technology (HKUST). Member of Supply Chain 50, an association of the top supply chain professionals in the world.

Gerard Jan RAYMOND

President of LF Beauty and LF Asia – Food, Health, Beauty & Cosmetics

Aged 56. President of LF Asia managing the Group's food, health, beauty and cosmetics distribution business in Asia. Also, President of LF Beauty overseeing the Asia-based operations of the Group's health, beauty and cosmetic business. Previously, an Executive Vice President, Distribution and Regional Managing Director of Integrated Distribution Services Group Limited. Joined the Group in 2003. Educated in Australia with a Bachelor's degree in Business. A Fellow of the Australian Marketing Institute.

Jason Andrew RABIN

President of LF Asia – Fashion & Home

Aged 43. President of LF Asia managing the Group's fashion and home distribution business in Asia. The founder of Kids Headquarters, children's and young men's apparel manufacturer, which he began in 1994. Joined the Group in 2009 when Kids Headquarters was acquired by Li & Fung. Graduated from the University of Miami in 1992. Received awards from the children's clothing industry, such as SPARC, Ernie Awards & LIMA.

Lale KESEBI

Executive Director of Li & Fung (Trading) Limited

Aged 44. Executive Director of Li & Fung (Trading) Limited. Responsible for the Group's corporate operations teams including legal, vendor compliance, human resources, corporate services and internal corporate communications. Joined the Group in 2003. Holds a Bachelor of Science (Honours) degree and a Bachelor of Law degree from Dalhousie University. Past member of The Law Society of British Columbia (Canada). Formerly, Chair of the Canadian Chamber's Business Policy & Government Relations committee and the Debenture and Scholarship committee of the Canadian International School in Hong Kong. Currently, a member of the Steering Committee for the Mentoring Programme for Women Leaders of The Women's Foundation in Hong Kong. Chair of the Corporate Sustainability Committee of the Company.

INFORMATION FOR INVESTORS

LISTING INFORMATION

Listing:	Hong Kong Exchange
Stock code:	494
Ticker Symbol	
Reuters:	0494.HK
Bloomberg:	494 HK Equity

INDEX CONSTITUENT

Hang Seng Index
MSCI Index Series
FTSE4Good Index Series
Dow Jones Sustainability Asia Pacific Index
Hang Seng Corporate Sustainability Index Series

KEY DATES

9 August 2012
Announcement of 2012 Interim Results

5 September 2012
Payment of 2012 Interim Dividend

21 March 2013
Announcement of 2012 Final Results

13 May 2013
Record Date for 2013 Annual General Meeting

14 May 2013
Annual General Meeting

16 May 2013
Dividend Ex-entitlement for Shares

21 May 2013 to 22 May 2013 (both days inclusive)
Closure of Register of Shareholders

28 May 2013
Proposed Payment of 2012 Final Dividend

SHARE INFORMATION

Board lot size: 2,000 shares

Shares outstanding as at 31 December 2012
8,359,048,906 shares

Market Capitalization as at 31 December 2012
HK$114,351,789,034

Earnings per share for 2012

Interim	3.80 US cents
Full year	7.45 US cents

Dividend per share for 2012

Interim	15 HK cents
Final	16 HK cents
Full year	31 HK cents

INVESTOR RELATIONS CONTACT

Ms Mable Chan
Executive Vice President
– Corporate Communications and Investor Relations

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e-mail:	*ir@lifung.com.hk*

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888 Cheung Sha Wan Road
Kowloon, Hong Kong

WEBSITE

www.lifung.com
www.irasia.com/listco/hk/lifung

REGISTRAR & TRANSFER OFFICES

PRINCIPAL
HSBC Securities Services (Bermuda) Limited
6 Front Street, Hamilton HM 11, Bermuda

HONG KONG BRANCH
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East,
Wanchai, Hong Kong

Telephone:	(852) 2980 1333
e-mail:	*is-enquiries@hk-tricorglobal.com*

A Chinese version of this Annual Report can be downloaded from the Company's website and can be obtained from the Company's Hong Kong branch share registrar, Tricor Abacus Limited.
本年報中文版可從本公司網站下載，及向本公司於香港之股份過戶登記處卓佳雅柏勤有限公司索取。

The directors submit their report together with the audited accounts for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in *Note 41* to the accounts.

Details of the analysis of the Group's turnover and contribution to operating profit for the year by segments are set out in *Note 3* to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in *Note 25* to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 73.

The directors declared an interim dividend of HK$0.15 (equivalent to US$0.019) per ordinary share, totalling US$160,721,000 which was paid on 5 September 2012.

The directors recommend the payment of a final dividend of HK$0.16 (equivalent to US$0.021) per share, totalling US$171,495,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in statement of changes in equity and *Note 26* to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2012, the reserves of the Company available for distribution as dividends amounted to US$561,890,000, comprising retained earnings of US$297,701,000 and contributed surplus arising from the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited and the issuance of shares for the acquisition of Colby Group Holdings Limited, as set out in *Note 26* to the accounts, amounting to US$264,189,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$1,321,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in *Note 13* to the accounts.

TEN-YEAR FINANCIAL SUMMARY

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2012 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 160.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws though there are no restrictions against such rights under the laws of Bermuda.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

SHARE OPTIONS

At the 2003 Annual General Meeting of the Company held on 12 May 2003, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 31 December 2012, there were options ("Share Options") relating to 250,737,000 shares of HK$0.0125 each ("Shares") granted by the Company pursuant to the Option Scheme which were valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain outstanding as at 31 December 2012 are as follows:

	Number of Share Options						Exercise		
	As at 1/1/2012	Granted	Exercised[1]	Cancelled	Lapsed	As at 31/12/2012	Price HK$	Grant Date	Exercisable Period
William Fung Kwok Lun	540,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	540,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	1,350,000	–	–	–	–	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Bruce Philip Rockowitz	450,000	–	(450,000)	–	–	–	12.77	24/1/2008	01/3/2010 – 29/2/2012
	900,000	–	–	–	–	900,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	540,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	540,000	–	–	–	–	540,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	1,350,000	–	–	–	–	1,350,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
Spencer Theodore Fung	352,000	–	(352,000)	–	–	–	12.77	24/1/2008	01/3/2010 – 29/2/2012
	352,000	–	–	–	–	352,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	354,000	–	–	–	–	354,000	20.76	25/3/2010	01/3/2011 – 28/2/2013
	360,000	–	–	–	–	360,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	360,000	–	–	–	–	360,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	900,000	–	–	–	–	900,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	1,000,000	–	–	–	–	1,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023

	Number of Share Options						Exercise		
	As at 1/1/2012	Granted	Exercised[1]	Cancelled	Lapsed	As at 31/12/2012	Price HK$	Grant Date	Exercisable Period
Continuous contract Employees	5,336,000	–	(5,226,000)	–	(110,000)	–	6.72	20/6/2005	20/6/2009 – 19/6/2012
	924,000	–	(924,000)	–	–	–	6.86	23/1/2006	20/6/2009 – 19/6/2012
	420,000	–	(320,000)	–	(100,000)	–	7.82	19/6/2006	20/6/2009 – 19/6/2012
	2,688,000	–	(1,956,000)	–	(732,000)	–	12.75	02/2/2007	20/6/2009 – 19/6/2012
	872,000	–	(872,000)	–	–	–	14.96	13/7/2007	20/6/2009 – 19/6/2012
	23,902,800	–	(19,020,800)	(2,882,000)	(2,000,000)	–	12.77	24/1/2008	01/3/2010 – 29/2/2012
	35,871,000	–	(8,787,000)	–	–	27,084,000	12.77	24/1/2008	01/3/2011 – 28/2/2013
	1,344,000	–	(984,000)	(180,000)	(180,000)	–	15.00	21/5/2008	01/3/2010 – 29/2/2012
	2,206,000	–	(522,000)	–	–	1,684,000	15.00	21/5/2008	01/3/2011 – 28/2/2013
	1,552,300	–	(895,600)	(408,800)	(247,900)	–	13.10	13/8/2008	01/3/2010 – 29/2/2012
	2,602,800	–	(659,800)	–	–	1,943,000	13.10	13/8/2008	01/3/2011 – 28/2/2013
	684,000	–	(116,000)	(416,000)	(152,000)	–	8.61	24/2/2009	01/3/2010 – 29/2/2012
	1,604,000	–	(532,000)	–	–	1,072,000	8.61	24/2/2009	01/3/2011 – 28/2/2013
	2,241,000	–	(1,998,800)	(90,400)	(151,800)	–	13.90	14/8/2009	01/3/2010 – 29/2/2012
	3,616,400	–	(1,272,200)	–	–	2,344,200	13.90	14/8/2009	01/3/2011 – 28/2/2013
	4,512,600	–	–	–	–	4,512,600	20.76	25/3/2010	01/3/2011 – 28/2/2013
	2,357,200	–	–	–	–	2,357,200	22.42	15/11/2010	01/3/2011 – 28/2/2013
	31,420,000	–	–	–	–	31,420,000	20.21	11/4/2011	01/5/2012 – 30/4/2015
	31,964,000	–	–	–	–	31,964,000	20.21	11/4/2011	01/5/2013 – 30/4/2015
	79,626,000	–	–	–	–	79,626,000	20.21	11/4/2011	01/5/2014 – 30/4/2016
	2,039,000	–	(6,000)	–	–	2,033,000	15.20	21/11/2011	01/5/2012 – 30/4/2015
	4,228,000	–	–	–	–	4,228,000	15.20	21/11/2011	01/5/2013 – 30/4/2015
	9,457,000	–	–	–	–	9,457,000	15.20	21/11/2011	01/5/2014 – 30/4/2016
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2013 – 30/4/2015
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2014 – 30/4/2016
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2015 – 30/4/2017
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2016 – 30/4/2018
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2017 – 30/4/2019
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2018 – 30/4/2020
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2019 – 30/4/2021
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2020 – 30/4/2022
	2,000,000	–	–	–	–	2,000,000	14.50	22/12/2011	01/5/2021 – 30/4/2023
	–	3,789,000[2]	–	(47,000)	–	3,742,000	15.09	26/6/2012	01/5/2013 – 30/4/2015
	–	8,447,000[2]	–	(90,000)	–	8,357,000	15.09	26/6/2012	01/5/2014 – 30/4/2016
	–	822,000[3]	–	(9,000)	–	813,000	13.04	12/11/2012	01/5/2013 – 30/4/2015
	–	3,042,000[3]	–	(28,000)	–	3,014,000	13.04	12/11/2012	01/5/2014 – 30/4/2016

NOTES:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$17.04.

(2) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$14.42.

(3) The closing market price per Share as at the date preceding the date on which the share options were granted was HK$12.38.

(4) The above options granted are recognized as expenses in the accounts in accordance with the Company's accounting policy as set out in *Note 1.16(d)* to the accounts. Other details of Share Options granted by the Company are set out in *Note 25* to the accounts.

Details of the Option Scheme are as follows:

(i) Purpose

The purpose of the Option Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentive to the employees including any executive or non-executive director and officer of the Company or any affiliate, consultants, agents, representatives, advisers, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of the option holders to the shareholders of the Company.

(ii) Qualifying participants

Any employee including any executive or non-executive director of the Company or any affiliate, any consultant, agent, representative, adviser, customer, contractor, business ally or joint venture partner of the Company or any affiliate.

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Option Scheme or 30% of the issued share capital of the Company from time to time. By an ordinary resolution passed at the 2010 Annual General Meeting of the Company held on 18 May 2010 relating to the refreshing of the scheme limit on grant of options under the Option Scheme and any other share option scheme(s) of the Company, the scheme limit on grant of options was refreshed. As a result, the number of Shares available for issue in respect thereof is 551,663,286 Shares representing 6.59% of the issued shares of the Company as at the date of this Report. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme(s) of the Company must not, in aggregate, exceed 30% of the total number of issued shares of the Company from time to time.

(iv) Limit for each participant

The total number of Shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the Shares of the Company in issue.

(v) Option period

The period within which the Shares must be taken up an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Option Scheme itself does not specify any minimum holding period.

(vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing).

HK$1.00 is payable by the grantee to the Company on acceptance of the offer.

(vii) Subscription price

The exercise price must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(viii) Remaining life of the Option Scheme

The Board is entitled at any time within 10 years between 12 May 2003 and 11 May 2013 to offer the grant of an option to any qualifying participants.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 are set out in *Note 41* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2012 are set out in *Note 41* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2012, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's five largest customers combined was also less than 30% of its total sales.

During 2011, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the Group's five largest customers combined was also less than 30% of its total sales.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions which were subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

(i) On 19 January 2012, the Group entered into a sales and purchase agreement with LiFung Kids (Holdings) Limited ("LiFung Kids"), a subsidiary of Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited) ("FH (1937)"), for its divestment of certain apparel retailing business at cash consideration of approximately US$22.4 million. FH (1937) is a substantial shareholder of the Company.

(ii) On 16 December 2012, the Group entered into a sales and purchase agreement with ILC International Corporation, an indirect subsidiary of FH (1937), for the disposal of the retail of apparel and accessories under the "Roots" brand at a consideration of approximately US$52 million.

During the year, the Group also engaged in certain continuing connected transactions as set out below:

(i) Pursuant to the master agreement for leasing of properties that the Company entered into with FH (1937) on 13 January 2011, the Group leased certain properties from FH (1937) and its associates for the period from 1 January 2011 to 31 December 2013. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the master leasing agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group paid rental expenses of US$24,267,000 for the year ended 31 December 2012.

(ii) Integrated Distribution Services Group Limited ("IDS Group") became a wholly-owned subsidiary of the Company effective on 29 October 2010. As a result, continuing connected transactions of IDS Group, such as (a) distribution of products to; (b) purchase of various products from; and (c) provision of various logistics services to, FH (1937) and its associates may become non-fully exempt continuing connected transactions of the Company. For the year ended 31 December 2012, the applicable percentage ratios of the Company in respect of each category of these transactions were less than 0.1%.

(iii) On 19 January 2012, the Group entered into a new distribution and sale of goods agreement with FH (1937) to set out the framework of the terms for distribution and sales of goods by the Group to the FH (1937) Group for a term of three years from 1 January 2012 to 31 December 2014. This new agreement replaces the original distribution and sale of goods agreement expiring on 31 December 2012 and covers the scope of business contemplated under the Group's agreements (i) to engage LiFung Kids on 19 January 2012 as the Group's exclusive retail distributor for certain branded children's apparel, children's footwear and various other related products in Hong Kong, the PRC and Macau; and (ii) as a master licensee of "Roots" Brand to appoint Branded Lifestyle Trading (Asia) Limited, a subsidiary of ILC International Corporation, as the distributor for an initial term commencing from 1 January 2013 and ending 31 January 2021, with a conditional renewable term of another ten years. Transactions contemplated under these agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US$27,448,000 for the year ended 31 December 2012.

Non-exempt continuing connected transactions of the Company have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid non-exempt continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with the Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

PENSION SCHEME ARRANGEMENTS

With effect from 1 December 2000, the mandatory provident fund (the "MPF Scheme") was set up by the Mandatory Provident Fund Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme and administered by independent trustees. Both the employer and the employees have to contribute an amount equal to 5% of the relevant income of such employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme and subject to certain conditions being met, all benefits derived from the mandatory contributions must be preserved until the employee either reaches the normal retirement age of 65 or meets certain specified conditions whichever is earlier.

In Taiwan, the Group operates a defined contribution provident scheme for its employees with the contributions set at 6% of the employees' basic salaries. In addition, the Group also participates in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group recognized pension cost monthly at 3% of the employees' salaries, which is contributed monthly to an independent fund.

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee's monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.

In Indonesia and Thailand, the Group participates in a defined contribution provident scheme for its employees with the contribution set at 3.7% and 7% of the employees' basic salaries respectively. In addition, the Group also participates in a defined benefit retirement scheme in accordance with local statutory requirement.

The provident fund schemes for staff of the Group in other regions follow the local requirements.

The provident fund schemes for staff of the Group in other regions follow the local requirements.

	US$'000
Contributions to the MPF Scheme	4,751
Contributions forfeited by employees	(2,237)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	1,985
Contributions pursuant to the statutory requirements in Korea	1,241
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	3,113
Contributions pursuant to local requirements in other overseas regions	45,980
	54,833

DIRECTORS

The directors during the year were:

Non-executive Directors:
Victor Fung Kwok King *(Honorary Chairman)*
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Franklin Warren McFarlan*
Martin Tang Yue Nien*
Benedict Chang Yew Teck
Fu Yuning*

Executive Directors:
William Fung Kwok Lun *(Group Chairman)*
Bruce Philip Rockowitz *(Group President & Chief Executive Officer)*
Spencer Theodore Fung *(Group Chief Operating Officer)*

* *Independent Non-executive Directors*

All directors of the Company, including Independent Non-executive Directors, are subject to retirement by rotation at annual general meetings in accordance with bye-law 110(A) of the Company's bye-laws.

Dr Victor Fung Kwok King, Mr Bruce Philip Rockowitz and Mr Paul Edward Selway-Swift will retire by rotation at the forthcoming Annual General Meeting. They, being eligible, will offer themselves for re-election.

Mr Selway-Swift will stand for re-election for a term of around one year commencing from the conclusion of the forthcoming Annual General Meeting in 2013 and expiring at the conclusion of the next Annual General Meeting to be held in 2014. If he stands for re-election again in the future, it will only be for periods of around one year.

The biographical details of the directors as at the date of this Report are set out in the Directors and Senior Management section on pages 52 to 57.

DIRECTORS' SERVICE CONTRACTS

Under a service contract dated 2 June 1992 between the Company and Dr William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and Dr William Fung Kwok Lun, Dr William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, LF Properties Limited (formerly known as Li & Fung (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.

Apart from the above, none of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Group which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

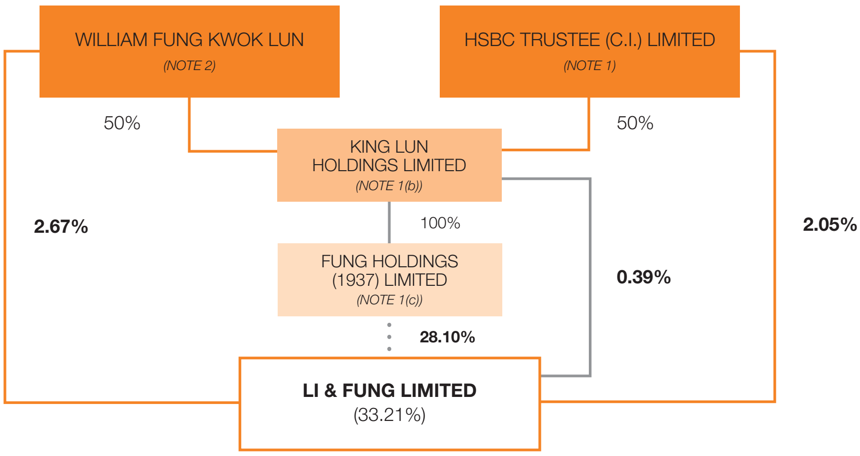
As at 31 December 2012, the directors and chief executives of the Company and their associates had the following interests in the shares of HK$0.0125 each ("Shares") and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 for Securities Transactions by Directors of Listed Companies ("the Model Code"):

(A) LONG POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

	Number of Shares					
Name of directors	**Personal interest**	**Family interest**	**Trust/ Corporate Interest**	**Equity derivatives (share options)**	**Total**	**Percentage of issued share capital**
Victor Fung Kwok King	2,814,444	–	2,553,080,340[1]	–	2,555,894,784	30.57%
William Fung Kwok Lun	144,342,660	108,800	2,458,254,232[2]	2,430,000[3]	2,605,135,692	31.16%
Spencer Theodore Fung*	1,408,000	–	2,553,080,340[1]	11,326,000[3]	2,565,814,340	30.69%
Bruce Philip Rockowitz	7,625,600	–	53,823,020[4]	36,221,760[5]	97,670,380	1.16%
Paul Edward Selway-Swift	36,000	60,000	16,000[6]	–	112,000	0.00%
Franklin Warren McFarlan	–	–	114,400[7]	–	114,400	0.00%
Martin Tang Yue Nien	–	–	60,000[8]	–	60,000	0.00%
Benedict Chang Yew Teck	4,053,200	–	–	–	4,053,200	0.04%

* *Son of Dr Victor Fung Kwok King*

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



NOTES:

As at 31 December 2012,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,553,080,340 Shares held in the following manner:

(a) 171,234,708 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 Dr Victor Fung Kwok King (the "Trust");

(b) 32,891,760 Shares were directly held by King Lun Holdings Limited ("King Lun"), a private company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee as trustee of the Trust and 50% by Dr William Fung Kwok Lun; and

(c) 2,195,727,908 Shares were directly held by FH (1937), a wholly owned subsidiary of King Lun, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly owned subsidiary, Fung Distribution International Limited (formerly known as Li & Fung (Distribution) Limited) ("FDI").

(2) Out of 2,458,254,232 Shares, 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies were beneficially owned by Dr William Fung Kwok Lun. The balance of 2,381,845,632 Shares were directly and indirectly held by King Lun as mentioned in *Note (1) (b) and (c)* above.

(3) these interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the Share Options section stated above.

(4) 53,823,020 Shares in the Company were held by Hurricane Millennium Holdings Limited ("HMHL"), a company beneficially owned by a trust which had been set up for the benefit of family members of Mr Bruce Philip Rockowitz.

(5) these interests represented:

(a) the beneficial interest of Mr Bruce Philip Rockowitz in 3,330,000 underlying shares in respect of share options granted by the Company to Mr Bruce Philip Rockowitz, the details of which are set out in the Share Options section stated above; and

(b) the deemed interest of Mr Bruce Philip Rockowitz in 32,891,760 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such shares in the Company in three tranches during the period from 25 December 2011 to 24 December 2019 with each tranche having an exercisable period of six years pursuant to an agreement made between King Lun and HMHL.

(6) 16,000 Shares in the Company were held by a trust of which Mr Paul Edward Selway-Swift is a beneficiary.

(7) 114,400 Shares in the Company were held by a trust established for the benefit of Professor Franklin Warren McFarlan.

(8) 60,000 Shares in the Company were held by a trust of which Mr Martin Tang Yue Nien was a beneficiary.

(B) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

By virtue of the SFO, each of Dr Victor Fung Kwok King, Dr William Fung Kwok Lun and Mr Spencer Theodore Fung was taken as at 31 December 2012 to have short position through King Lun, in which all of them were deemed to have interests as disclosed above, in respect of an aggregate of 32,891,760 underlying Shares, representing 0.39% of the total issued share capital of the Company. Such interest constitutes, for the purposes of the SFO, a short position of King Lun under unlisted physically settled equity derivatives which arise under an agreement made between King Lun and HMHL pursuant to which options were granted by King Lun to HMHL to purchase 109,891,760 Shares in the Company in ten tranches during the period from 25 December 2004 to 24 December 2019, with each tranche having an exercisable period of six years.

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive of the Company or their associates had any short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of 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 Mode.

(C) SHARE OPTIONS

The interests of the directors and chief executives in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the Share Options section stated above.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

At 31 December 2012, other than the interests of the directors or chief executive of the Company as disclosed above, the following persons had interests in the Shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Long Positions			
King Lun Holdings Limited	Beneficial owner (32,891,760) Interest of controlled corporation (2,348,953,872)[1]	2,381,845,632	28.49%
HSBC Trustee (C.I.) Limited	Trustee	2,553,080,340[2]	30.54%
Janus Capital Management LLC	Investment manager	566,265,325	6.77%
JPMorgan Chase & Co.	Beneficial owner (13,913,810) Investment manager (180,006,626) Custodian corporation/approved lending agent (301,987,756)	495,908,192	5.93%
Sun Life Financial, Inc.	Investment manager	420,620,614[3]	5.03%
Massachusetts Financial Services Company	Investment manager	420,620,614[3]	5.03%
The Capital Group Companies, Inc.	Interest of controlled corporation	670,537,682	8.02%

Name of Shareholder	Capacity	Number of Shares	Percentage of issued share capital
Short Positions			
King Lun Holdings Limited	Beneficial owner	32,891,760[4]	0.39%
HSBC Trustee (C.I.) Limited	Trustee	32,891,760[5]	0.39%
JPMorgan Chase & Co.	Beneficial owner	6,401,256	0.07%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent	301,987,756	3.61%

NOTES:
As at 31 December 2012,

(1) 2,195,727,908 Shares were directly held by FH (1937) which also through its wholly owned subsidiary, FDI, indirectly held 153,225,964 Shares. FH (1937) was a wholly owned subsidiary of King Lun. Both of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun were directors of King Lun, FH (1937) and FDI.

(2) Please refer to *Note (1)* under the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(3) Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life Financial, Inc. ("SLF") and accordingly, MFS's interest in 420,620,614 Shares are duplicated in the interest of SLF.

(4) This short position represented King Lun's short position in 32,891,760 underlying shares which constitutes unlisted physically settled equity derivatives pursuant to arrangement as described in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section stated above.

(5) HSBC Trustee was taken to have short position in the same underlying shares held by King Lun.

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2012.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

SENIOR MANAGEMENT

The biographical details of the senior management as at the date of this Report are set out in the Directors and Senior Management section on pages 52 to 57.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance section on pages 26 to 41.

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
William FUNG Kwok Lun
Group Chairman

Hong Kong, 21 March 2013

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF LI & FUNG LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated accounts of Li & Fung Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 73 to 159, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED ACCOUNTS

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2013

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CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE GROUP

For the year ended 31 December 2012

	Note	**2012 US$'000**	2011 US$'000
Turnover	*3*	**20,221,806**	20,030,271
Cost of sales		**(17,353,483)**	(17,043,929)
Gross profit		**2,868,323**	2,986,342
Other income		**95,472**	87,862
Total margin		**2,963,795**	3,074,204
Selling and distribution expenses		**(946,951)**	(834,099)
Merchandising and administrative expenses		**(1,505,671)**	(1,358,049)
Core operating profit	*3*	**511,173**	882,056
Gain on remeasurement of contingent consideration payable	*4*	**325,591**	–
Gain on disposals of businesses/subsidiary	*31(c), 36*	**29,635**	50,994
Gain on disposal of properties/property holding subsidiary	*36*	**–**	13,666
Amortization of other intangible assets	*4*	**(64,944)**	(51,878)
Other non-core operating expenses	*4*	**(10,752)**	(14,901)
Operating profit	*4*	**790,703**	879,937
Interest income		**20,385**	19,490
Interest expenses	*5*		
Non-cash interest expenses		**(24,656)**	(21,538)
Cash interest expenses		**(110,453)**	(107,056)
		(135,109)	(128,594)
Share of profits less losses of associated companies		**638**	1,231
Profit before taxation		**676,617**	772,064
Taxation	*6*	**(54,053)**	(90,660)
Net profit for the year		**622,564**	681,404
Attributable to:			
Shareholders of the Company	*7*	**617,416**	681,229
Holders of perpetual capital securities		**4,415**	–
Non-controlling interests		**733**	175
		622,564	681,404
Earnings per share for profit attributable to the shareholders of the Company during the year	*8*		
– basic		**58.1 HK cents**	65.8 HK cents
(equivalent to)		**7.45 US cents**	8.43 US cents
– diluted		**58.1 HK cents**	65.5 HK cents
(equivalent to)		**7.44 US cents**	8.39 US cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 81 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE GROUP

For the year ended 31 December 2012

	2012 **US$'000**	2011 US$'000
Net profit for the year	**622,564**	681,404
Other comprehensive income/(expense):		
Currency translation differences	**48,443**	(28,024)
Net fair value gain on available-for-sale financial assets, net of tax	**112**	188
Net fair value (loss)/gain on cash flow hedges, net of tax	**(10,489)**	10,226
Net actuarial loss from post employment benefits recognized in reserve	**(1,889)**	(3,549)
Other comprehensive income/(expense) for the year, net of tax	**36,177**	(21,159)
Total comprehensive income for the year	**658,741**	660,245
Attributable to:		
Shareholders of the Company	**653,210**	660,291
Holders of perpetual capital securities	**4,415**	–
Non-controlling interests	**1,116**	(46)
Total comprehensive income for the year	**658,741**	660,245

The notes on pages 81 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET OF THE GROUP

As at 31 December 2012

	Note	As at 31 December 2012 US$'000	2011 US$'000
Non-current assets			
Intangible assets	*12*	**7,058,406**	6,525,999
Property, plant and equipment	*13*	**418,624**	325,432
Prepaid premium for land leases	*14*	**3,073**	3,144
Associated companies	*16*	**7,571**	7,015
Available-for-sale financial assets	*17*	**60,598**	70,574
Deposits	*21*	**19,949**	12,537
Deferred tax assets	*30*	**66,962**	24,148
		7,635,183	6,968,849
Current assets			
Inventories	*18*	**939,078**	1,035,788
Due from related companies	*19*	**92,444**	16,948
Trade and bills receivable	*21*	**2,242,678**	2,004,542
Other receivables, prepayments and deposits	*21*	**425,390**	454,310
Derivative financial instruments	*20*	**–**	13,743
Cash and bank balances	*22*	**680,379**	426,240
		4,379,969	3,951,571
Current liabilities			
Due to related companies	*19*	**8,484**	12,675
Trade and bills payable	*23*	**2,458,128**	2,336,991
Accrued charges and sundry payables	*23*	**827,460**	734,213
Balance of purchase consideration payable for acquisitions to be settled by cash	*28*	**329,570**	323,712
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	*28*	**–**	1,764
Taxation		**92,290**	103,006
Derivative financial instruments	*20*	**4,821**	–
Bank advances for discounted bills	*21*	**35,666**	40,298
Short-term bank loans	*24*	**117,519**	111,936
Bank overdrafts	*22, 24*	**–**	225
		3,873,938	3,664,820
Net current assets		**506,031**	286,751
Total assets less current liabilities		**8,141,214**	7,255,600

CONSOLIDATED BALANCE SHEET OF THE GROUP (CONTINUED)

As at 31 December 2012

	Note	As at 31 December 2012 US$'000	2011 US$'000
Financed by:			
Share capital	*25*	**13,396**	12,987
Reserves		**4,444,908**	3,566,195
Proposed dividend		**171,495**	354,611
		4,616,403	3,920,806
Shareholders' funds attributable to the Company's shareholders		**4,629,799**	3,933,793
Perpetual capital securities	*27*	**504,415**	–
Non-controlling interests		**10,713**	4,813
Total equity		**5,144,927**	3,938,606
Non-current liabilities			
Long term notes	*28*	**1,255,461**	1,256,007
Balance of purchase consideration payable for acquisitions settled by cash	*28*	**1,318,705**	1,646,664
Other long-term liabilities	*28*	**332,651**	348,351
Post-employment benefit obligations	*29*	**18,386**	13,096
Deferred tax liabilities	*30*	**71,084**	52,876
		2,996,287	3,316,994
		8,141,214	7,255,600

William Fung Kwok Lun
Director

Bruce Philip Rockowitz
Director

The notes on pages 81 to 159 are an integral part of these consolidated accounts.

BALANCE SHEET OF THE COMPANY

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	**US$'000**	US$'000
Interests in subsidiaries	*15*	**1,339,604**	1,339,604
Current assets			
Due from related companies	*19*	**4,728,264**	3,855,441
Other receivables, prepayments and deposits	*21*	**250**	249
Cash and bank balances	*22*	**1,553**	295
		4,730,067	3,855,985
Current liabilities			
Accrued charges and sundry payables	*23*	**10,406**	9,760
		10,406	9,760
Net current assets		**4,719,661**	3,846,225
Total assets less current liabilities		**6,059,265**	5,185,829
Financed by:			
Share capital	*25*	**13,396**	12,987
Reserves	*26(b)*	**4,114,498**	3,562,224
Proposed dividend	*26(b)*	**171,495**	354,611
		4,285,993	3,916,835
Shareholders' funds		**4,299,389**	3,929,822
Perpetual capital securities	*27*	**504,415**	–
		4,803,804	3,929,822
Non-current liabilities			
Long-term notes	*28*	**1,255,461**	1,256,007
		6,059,265	5,185,829

William Fung Kwok Lun
Director

Bruce Philip Rockowitz
Director

The notes on pages 81 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE GROUP

For the year ended 31 December 2012

	Attributable to shareholders of the Company							
	Share capital US$'000 *Note 25*	**Share premium US$'000**	**Other reserves US$'000** *Note 26(a)*	**Retained earnings US$'000**	**Total US$'000**	**Perpetual capital securities US$'000** *Note 27*	**Non-controlling interests US$'000**	**Total equity US$'000**
Balance at 1 January 2012	12,987	3,114,097	(27,439)	834,148	3,933,793	–	4,813	3,938,606
Comprehensive income								
Profit or loss	–	–	–	617,416	617,416	4,415	733	622,564
Other comprehensive income								
Currency translation differences	–	–	48,060	–	48,060	–	383	48,443
Net fair value gain on available-for-sale financial assets, net of tax	–	–	112	–	112	–	–	112
Net fair value loss on cash flow hedges, net of tax	–	–	(10,489)	–	(10,489)	–	–	(10,489)
Net actuarial loss from post employment benefits recognized in reserve	–	–	(1,889)	–	(1,889)	–	–	(1,889)
Total other comprehensive income	–	–	35,794	–	35,794	–	383	36,177
Total comprehensive income	–	–	35,794	617,416	653,210	4,415	1,116	658,741
Transactions with owners								
Issue of shares upon a private placing	337	497,923	–	–	498,260	–	–	498,260
Employee share option scheme:								
– value of employee services	–	–	2,248	–	2,248	–	–	2,248
– proceeds from shares issued	72	69,337	–	–	69,409	–	–	69,409
– transfer to share premium	–	15,655	(15,655)	–	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	1,764	–	1,764	–	–	1,764
Issuance of perpetual capital securities	–	–	–	–	–	500,000	–	500,000
Transaction costs related to issuance of perpetual capital securities	–	–	–	(4,165)	(4,165)	–	–	(4,165)
Transfer to capital reserve	–	–	124	(124)	–	–	–	–
Capitalization of loan from non-controlling interests	–	–	–	–	–	–	4,893	4,893
2011 final dividend paid	–	–	–	(363,999)	(363,999)	–	–	(363,999)
2012 interim dividend paid	–	–	–	(160,721)	(160,721)	–	(109)	(160,830)
Total transactions with owners	409	582,915	(11,519)	(529,009)	42,796	500,000	4,784	547,580
Balance at 31 December 2012	13,396	3,697,012	(3,164)	922,555	4,629,799	504,415	10,713	5,144,927

	Attributable to shareholders of the Company							
	Share capital US$'000 *Note 25*	Share premium US$'000	Other reserves US$'000 *Note 26(a)*	Retained earnings US$'000	Total US$'000	Perpetual capital securities US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2011	12,899	3,015,794	(22,868)	620,204	3,626,029	–	6,049	3,632,078
Comprehensive income								
Profit or loss	–	–	–	681,229	681,229	–	175	681,404
Other comprehensive income								
Currency translation differences	–	–	(27,803)	–	(27,803)	–	(221)	(28,024)
Net fair value gain on available-for-sale financial assets, net of tax	–	–	188	–	188	–	–	188
Net fair value gain on cash flow hedges, net of tax	–	–	10,226	–	10,226	–	–	10,226
Net actuarial loss from post employment benefits recognized in reserve	–	–	(3,549)	–	(3,549)	–	–	(3,549)
Total other comprehensive income	–	–	(20,938)	–	(20,938)	–	(221)	(21,159)
Total comprehensive income	–	–	(20,938)	681,229	660,291	–	(46)	660,245
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	18,906	–	18,906	–	–	18,906
– proceeds from shares issued	88	80,808	–	–	80,896	–	–	80,896
– transfer to share premium	–	17,495	(17,495)	–	–	–	–	–
Release of shares held by escrow agent for settlement of acquisition consideration	–	–	14,882	–	14,882	–	–	14,882
Transfer to capital reserve	–	–	74	(74)	–	–	–	–
2010 final dividend paid	–	–	–	(269,851)	(269,851)	–	–	(269,851)
2011 interim dividend paid	–	–	–	(197,360)	(197,360)	–	(1,190)	(198,550)
Total transactions with owners	88	98,303	16,367	(467,285)	(352,527)	–	(1,190)	(353,717)
Balance at 31 December 2011	12,987	3,114,097	(27,439)	834,148	3,933,793	–	4,813	3,938,606

The notes on pages 81 to 159 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

For the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Operating activities			
Net cash inflow generated from operations	*31(a)*	**665,183**	987,058
Hong Kong profits tax paid		**(15,540)**	(14,100)
Overseas taxation paid		**(63,522)**	(48,735)
Net cash inflow from operating activities		**586,121**	924,223
Investing activities			
Interest income		**20,385**	19,490
Purchase of property, plant and equipment		**(175,806)**	(113,223)
Disposal of property, plant and equipment		**3,440**	11,912
Disposal of available-for-sale financial assets	*17*	**–**	944
Partial repayment on debt security	*17*	**10,000**	13,000
Payment for computer software and system development costs		**(12,026)**	(4,832)
Acquisitions of businesses/subsidiaries	*32*	**(292,441)**	(701,169)
Settlement of consideration payable for prior years acquisitions of businesses/subsidiaries		**(358,755)**	(287,774)
Dividends received from associated companies	*16*	**124**	300
Disposal of prepaid premium for land leases		**–**	77
Proceed from disposal of businesses/subsidiary	*31(c)*	**41,657**	64,060
Proceeds from disposal of properties/property holding subsidiary		**–**	26,201
Net cash outflow from investing activities		**(763,422)**	(971,014)
Net cash outflow before financing activities		**(177,301)**	(46,791)
Financing activities			
Net proceeds from issuance of shares	*31(b)*	**69,409**	80,896
Net drawdown of bank loans	*31(b)*	**94**	25,483
Interest paid		**(110,453)**	(107,056)
Dividends paid		**(524,829)**	(468,401)
Issue of shares upon a private placing	*31(b)*	**498,260**	–
Net proceeds from issuance of perpetual capital securities, net of transaction cost		**495,835**	–
Net cash inflow/(outflow) from financing		**428,316**	(469,078)
Increase/(decrease) in cash and cash equivalents		**251,015**	(515,869)
Cash and cash equivalents at 1 January		**426,015**	940,232
Effect of foreign exchange rate changes		**3,349**	1,652
Cash and cash equivalents at 31 December		**680,379**	426,015
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*22*	**680,379**	426,240
Bank overdrafts	*22*	**–**	(225)
		680,379	426,015

The notes on pages 81 to 159 are an integral part of these consolidated accounts.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The basis of preparation and principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 BASIS OF PREPARATION

The consolidated accounts of Li & Fung Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the inclusion of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in *Note 2*.

(a) Amended standards adopted by the Group

The following amended standards of HKFRSs are mandatory for accounting periods beginning on or after 1 January 2012 but they are not relevant to the Group's operations:

HKAS 12 (amendment)	Deferred tax: recovery of underlying assets
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates of first-time adopters
HKFRS 7 (amendment)	Disclosures – Transfers of financial assets

(b) New standards, new interpretations and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group

The following new standards, new interpretations and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but the Group has not early adopted them:

HKAS 1 (amendment)	Presentation of financial statements[1]
HKAS 19 (2011)	Employee benefits[2]
HKAS 27 (2011)	Separate financial statements[2]
HKAS 28 (2011)	Investments in associates and joint ventures[2]
HKAS 32 (amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities[3]
HKFRS 1 (amendment)	First time adoption on government loans[2]
HKFRS 7 (amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities[2]
HKFRS 7 and 9 (amendment)	Mandatory effective date and transition disclosures[4]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurements[2]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[2]
Fourth annual improvements Project (2011)	Improvements to HKFRS published in 2012[2]

NOTES:

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(b) New standards, new interpretations and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group (continued)

The Group is in the process of making an assessment of the impact of these new standards, new interpretations and amendments to existing standards upon initial application.

1.2 CONSOLIDATION

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 2012.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill *(Note 1.6)*. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies and financial information of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses *(Note 1.7)*. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition *(Note 1.6)*.

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated profit and loss account, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits less losses of an associated companies" in the consolidated profit and loss account.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of associated companies has been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated profit and loss account.

1.3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in US dollar, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or revaluation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(c) Group companies (continued)

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

1.5 PROPERTY, PLANT AND EQUIPMENT

(a) Land and buildings

Freehold land is stated at cost less impairment.

Buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(b) Other property, plant and equipment

Other property, plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment, plant and machinery, motor vehicles and company boat, are stated at cost less accumulated depreciation and accumulated impairment losses.

(c) Depreciation and impairment

Freehold land is not depreciated. Other classes of property, plant and equipment are depreciated at rates sufficient to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	shorter of lease term or useful life
Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment	$6^2/_3$% – $33^1/_3$%
Plant and machinery	10% – 15%
Motor vehicles and company boat	15% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 1.7)*. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

(d) Gain or loss on disposal

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant item, and is recognized in the consolidated profit and loss account.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.6 INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of the considerations transferred over the net fair value of the Group's share of the net identifiable assets/liabilities and contingent liabilities of the acquired business/subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in interests in associated companies and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Each unit of groups of units to which the goodwill is allocated represent the lowest level within the entity at which the goodwill is monitored for internal management purpose.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software and system development costs

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 to 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

(c) Other intangible assets arising from business combinations

Intangible assets, other than goodwill, identified on business combinations are capitalized at their fair values. They represent mainly trademarks, buying agency agreements secured, relationships with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 5 to 20 years.

(d) Brand licenses

Brand licenses are license contracts entered into with the brand-holders by the Group in the capacity as licensee. Brand licenses are capitalized based on the upfront costs incurred and the present value of guaranteed royalty payments to be made subsequent to the inception of the license contracts. Brand licenses are amortized based on expected usage from the date of first commercial usage over the remaining licence periods ranging from approximately 1 to 10 years.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.7 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

1.8 FINANCIAL ASSETS

Classification

The Group classifies its financial assets as either loans and receivables or available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivable", "other receivables, prepayments and deposits", "cash and bank balances" and "amount due from related companies" in the balance sheet *(Note 1.11)*.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in consolidated profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL ASSETS (CONTINUED)

Recognition and measurement (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated profit and loss account as net investment loss.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated profit and loss account as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated profit and loss account as part of other revenues when the Group's right to receive payments is established.

1.9 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.9 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortized cost (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated profit and loss account.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate consolidated profit and loss account.

1.10 INVENTORIES

Inventories comprise raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out (FIFO) basis, comprises purchase prices of inventories and direct costs (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

1.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current asset. If not, they are presented as non-current assets. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated profit and loss account within selling expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling expenses in the consolidated profit and loss account.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.12 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.14 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.15 CURRENT AND DEFERRED TAX

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 CURRENT AND DEFERRED TAX (CONTINUED)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.16 EMPLOYEE BENEFITS

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave entitlements as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Discretionary bonus

The expected costs of discretionary bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Post employment benefit obligations

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee – administrated funds. The defined benefit pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognized over the average remaining service lives of employees.

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale, growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1.17 PROVISIONS

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

1.18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

1.19 TOTAL MARGIN

Total margin includes gross profit and other recurring income relating to the trading, distribution and logistics businesses.

1.20 CORE OPERATING PROFIT

Core operating profit is the profit before taxation generated from the Group's trading, distribution and logistics businesses which excluding share of results of associated companies, interest income, interest expenses, tax, material gains or losses which are of capital nature or non-recurring nature, gain on remeasurement of contingent consideration payable, amortization of other intangible assets and acquisition-related costs.

1.21 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Service income is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Operating lease rental income is recognized on a straight-line basis.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Dividend income is recognized when the right to receive payment is established.

Other income is recognized when the services are rendered.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.22 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

1.23 OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease. The upfront prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account.

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the fair values of hedging derivatives are included within shareholders' equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in equity are recycled to the consolidated profit and loss account in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in the consolidated profit and loss account within sales. The gain or loss relating to the ineffective portion is recognized in the consolidated profit and loss account within other gains/(losses) – net. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory, or in depreciation in case of property, plant and equipment.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(a) Cash flow hedge (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated profit and loss account.

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated profit and loss account.

1.25 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.26 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's accounts in the period in which the dividends are approved by the Company's shareholders.

1.27 SHARES HELD BY ESCROW AGENT FOR SETTLEMENT OF ACQUISITION CONSIDERATION

In relation to certain business combinations, the Company issues shares to escrow agents for the settlement of acquisition consideration payables to the vendors in future years. The shares, valued at the agreed upon issue price, including any directly attributable incremental costs, are presented as "Shares held by escrow agent for settlement of acquisition consideration" and deducted from total equity. The number of shares held by escrow agent for settlement of acquisition consideration would be eliminated against the corresponding number of share capital issued in the calculation of the earnings per share for profit attributable to the shareholders of the Company.

1.28 FINANCIAL GUARANTEE CONTRACT

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The company's liabilities under such guarantees are subsequently measured at the higher of the initial amount, less amortization of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated profit and loss account within administrative expenses.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) ESTIMATED IMPAIRMENT OF INTANGIBLE ASSETS INCLUDING GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in *Note 1.6*. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(Note 12)*.

(b) USEFUL LIVES OF INTANGIBLE ASSETS

The Group amortizes its intangible assets with finite useful lives on a straight-line basis over their estimated useful lives. The estimated useful lives reflect the management's estimates of the periods that the Group intends to derive future economic benefits from the use of these intangible assets.

(c) IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment. Based on the Group's estimation, impairment provision of approximately US$88,000 have been made on certain unlisted available-for-sale financial assets *(Note 17)* during the current year.

(d) INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS

Certain of the Group's business acquisitions have involved post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) is effective prospectively to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group follows the requirement of HKFRS 3 (Revised) to recognize the fair value of those contingent considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses/subsidiaries. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses/subsidiaries and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerging after the acquisition date, with any resulting gain or loss recognized in the consolidated profit and loss account in accordance with HKFRS 3 (Revised). For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised), changes in the fair values of contingent consideration are recognized in goodwill.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) CONTINGENT CONSIDERATIONS OF ACQUISITIONS (CONTINUED)

The basis of the contingent consideration differs for each acquisition; generally however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable will vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of each acquired business and the potential impact on the gain or loss on remeasurement of contingent consideration payables and goodwill for each acquired businesses.

However, if the total actual contingent consideration payables are 10% lower or higher than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables would be US$147 million, and the resulting aggregate impact to the goodwill would be US$18 million.

3 SEGMENT INFORMATION

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 300 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group's management (Chief Operating Decision-Maker) considers the business principally from the perspective of three global Networks, namely Trading Network, Logistics Network and Distribution Network. Trading Network is the operating segment that focuses on the global sourcing business. Logistics Network is the operating segment that runs both the Group's international and domestic logistics services networks globally. Distribution Network is the operating segment that operates the onshore distribution businesses in the US, Pan-European and Asian regions. During 2012, there were certain business restructuring among the segments. Prior period comparative segment information have been restated accordingly.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit (see *Note 1.20*). This measurement basis includes profit of the operating segments before share of results of associated companies, interest income, interest expenses and tax, but excludes material gains or losses which are of capital nature or non-recurring nature, gain on remeasurement of contingent consideration payable, amortization of other intangible assets and acquisition-related costs. Other information provided to the Group's management is measured in a manner consistent with that in the accounts.

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2012					
Turnover	16,130,928	403,687	6,435,914	(2,748,723)	20,221,806
Total margin	1,450,817	159,794	1,353,184		2,963,795
Operating costs	(924,625)	(135,930)	(1,392,067)		(2,452,622)
Core operating profit/(loss)	526,192	23,864	(38,883)		511,173
Gain on remeasurement of contingent consideration payable					325,591
Gain on disposal of businesses/subsidiary					29,635
Amortization of other intangible assets					(64,944)
Other non-core operating expenses					(10,752)
Operating profit					790,703
Interest income					20,385
Interest expenses					
Non-cash interest expenses					(24,656)
Cash interest expenses					(110,453)
					(135,109)
Share of profits less losses of associated companies					638
Profit before taxation					676,617
Taxation					(54,053)
Net profit for the year					622,564
Depreciation & amortization	50,169	7,103	228,104		285,376
31 December 2012					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	2,367,279	388,980	4,751,364		7,507,623

3 SEGMENT INFORMATION (CONTINUED)

	Trading Network US$'000	Logistics Network US$'000	Distribution Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2011 – Restated					
Turnover	15,880,099	350,611	6,370,315	(2,570,754)	20,030,271
Total margin	1,410,282	143,700	1,520,222		3,074,204
Operating costs	(845,121)	(125,920)	(1,221,107)		(2,192,148)
Core operating profit	565,161	17,780	299,115		882,056
Gain on disposal of businesses/subsidiary					50,994
Gain on disposal of properties/property holding subsidiary					13,666
Amortization of other intangible assets					(51,878)
Other non-core operating expenses					(14,901)
Operating profit					879,937
Interest income					19,490
Interest expenses					
Non-cash interest expenses					(21,538)
Cash interest expenses					(107,056)
					(128,594)
Share of profits less losses of associated companies					1,231
Profit before taxation					772,064
Taxation					(90,660)
Net profit for the year					681,404
Depreciation & amortization	41,158	5,871	179,513		226,542
31 December 2011 – Restated					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	2,012,456	368,677	4,492,994		6,874,127

3 SEGMENT INFORMATION (CONTINUED)

The geographical analysis of turnover and non-current assets (other than available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than available-for-sale financial and deferred tax assets) As at 31 December	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
United States of America	**12,648,536**	11,982,146	**4,605,737**	4,255,844
Europe	**3,761,258**	4,281,735	**1,458,218**	1,324,471
China	**1,211,809**	1,130,676	**483,619**	436,051
Rest of Asia	**1,198,311**	1,223,679	**646,562**	624,440
Canada	**646,775**	674,179	**161,476**	111,368
Australasia	**342,561**	378,200	**64,813**	60,770
Central and Latin America	**298,425**	256,998	**65,094**	45,072
South Africa and Middle East	**114,131**	102,658	**22,104**	16,111
	20,221,806	20,030,271	**7,507,623**	6,874,127

Turnover to external parties consists of sales of softgoods, hardgoods and logistics income is as follows:

	2012 US$'000	2011 US$'000
Softgoods	**12,647,053**	12,911,434
Hardgoods	**7,127,260**	6,719,740
Logistics	**447,493**	399,097
	20,221,806	20,030,271

For the year ended 31 December 2012, approximately 15.0% (2011: 13.3%) of the Group's turnover is derived from a single external customer, of which 13.5% (2011: 11.8%) and 1.5% (2011: 1.5%) are attributable to the Trading Network and Distribution Network segments respectively.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2012 US$'000	2011 US$'000
Crediting		
Gain on remeasurement of contingent consideration payable *(Note)**	**325,591**	–
Gain on disposal of businesses/subsidiary *(Note 31(c))**	**29,635**	50,994
Gain on disposal of properties/property holding subsidiary*	**–**	13,666
Net exchange gains	**–**	6,330
Charging		
Cost of inventories sold	**17,353,483**	17,043,929
Amortization of computer software and system development costs *(Note 12)*	**7,633**	6,205
Amortization of brand licenses *(Note 12)*	**126,503**	97,394
Amortization of other intangible assets *(Note 12)**	**64,944**	51,878
Amortization of prepaid premium for land leases *(Note 14)*	**178**	180
Depreciation of property, plant and equipment *(Note 13)*	**86,118**	70,885
Loss on disposal of property, plant and equipment	**1,504**	2,222
Loss on disposal of computer software and system development costs	**–**	367
Net provision for impairment of available-for-sale financial assets *(Note 17)*	**88**	–
Operating leases rental in respect of land and building	**212,309**	191,076
Provision for impaired receivables *(Note 21)*	**12,373**	15,552
Staff costs including directors' emoluments *(Note 10)*	**1,324,025**	1,227,029
Business acquisition-related costs *(Note 32)**	**10,752**	14,901
Net exchange losses	**6,052**	–

* *Included below the core operating profit*

NOTE: During the year, the Group remeasured contingent considerations payable for all acquisitions with outstanding contingent consideration arrangements based on the market outlook and their prevailing business plans and projections. Accordingly, total gain of approximately US$326 million was recognized for Visage Group, MESH and certain other acquisitions, of which US$126 million was related to Visage Group. Among the total remeasurement gain, approximately US$270 million was adjustment to earnup consideration. The revised provisions for performance-based contingent considerations are calculated based on discounted cash flows of future consideration payment with the revision of estimated future profit of these acquired businesses. These gains were recognised as a non-core operating gain on remeasurement of contingent consideration payable.

The remuneration to the auditors for audit and non-audit services is as follows:

	2012 US$'000	2011 US$'000
Audit services	**5,286**	5,017
Non-audit services		
– due diligence reviews on acquisitions	**2,538**	2,201
– taxation services	**2,401**	2,335
– others	**149**	247
Total remuneration to auditors charged to consolidated profit and loss account	**10,374**	9,800

NOTE: Of the above audit and non-audit services fees, US$5,222,000 (2011: US$4,920,000) and US$5,088,000 (2011: US$4,783,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2012 US$'000	2011 US$'000
Non-cash interest expenses on purchase consideration, license royalty payable and long-term notes		
– wholly repayable within five years	**24,058**	16,624
– not wholly repayable within five years	**598**	4,914
Cash interest expenses on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**71,078**	40,181
– not wholly repayable within five years	**39,375**	66,875
	135,109	128,594

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2012 US$'000	2011 US$'000
Current taxation		
– Hong Kong profits tax	**12,978**	11,689
– Overseas taxation	**57,438**	55,889
(Over)/underprovision in prior years	**(1,960)**	4,196
Deferred taxation *(Note 30)*	**(14,403)**	18,886
	54,053	90,660

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2012 %	2011 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(2.3)**	(3.7)
Income net of expenses not subject to taxation	**(7.6)**	(2.8)
(Over)/underprovision in prior years	**(0.3)**	0.5
Utilization of previously unrecognized tax losses	**(0.3)**	(0.2)
Unrecognized tax losses	**2.0**	1.4
Effective tax rate	**8.0**	11.7

6 TAXATION (CONTINUED)

As of the date of this annual report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") involving additional tax assessments amounting to approximately US$248 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/93 to 2011/12.

The Commissioner of the HKIR issued a determination on 14 June 2004 to one of our subsidiaries, Li & Fung (Trading) Limited ("LFT"), confirming additional tax assessments totalling US$43 million relating to the years of assessment from 1992/93 to 2001/02. Based upon professional advice then obtained, the directors believed that the Group had meritorious reasons to justify appealing against the Commissioner's determination. Accordingly, LFT lodged a notice of appeal to the Board of Review on 13 July 2004.The appeal was heard before the Board of Review in January 2006.

The Board of Review issued its decision on 12 June 2009 ("the Board of Review Decision") and held partially in favour of LFT. It agreed that the Offshore Claim for the years of assessment from 1992/93 to 2001/02 is valid. In other words, the relevant assessments in respect of such Offshore Claim should be annulled. On the other hand, the Board of Review disagreed with the Deduction Claim for the years of assessment from 1992/93 to 2001/02. Therefore, the relevant assessments in respect of such Deduction Claim should be confirmed.

The Group considered the reasoning of the Board of Review Decision and, having obtained professional advice, decided to lodge an appeal against the Board of Review Decision in respect of the Deduction Claim.

On the other hand, the HKIR also lodged an appeal against the Board of Review Decision in respect of the Offshore Claim.

On 19 March 2010, the Board of Review stated a case on questions of law in respect of both LFT's appeal on the Deduction Claim, and the HKIR's appeal on the Offshore Claim. On 1 April 2010, both LFT and the HKIR transmitted the stated case to the High Court for determination.

The appeal by the HKIR in respect of the Board of Review Decision on the Offshore Claim was dismissed by the Court of First Instance on 18 April 2011, which upheld the Board of Review Decision. LFT was also awarded costs of the appeal by the Court of First Instance.

On 16 May 2011, the HKIR lodged an appeal against the judgment of the Court of First Instance to the Court of Appeal, which appeal was heard by the Court of Appeal on 14 and 15 February 2012. On 19 March 2012, the Court of Appeal delivered its judgment. It upheld the judgment of the Court of First Instance, dismissed the HKIR's appeal and awarded costs of the appeal of LFT. Any appeal against the judgment of the Court of Appeal to the Court of Final Appeal requires permission of the Court of Appeal or the Court of Final Appeal. As no application for such permission was submitted by the HKIR within the prescribed time limit, the Court of Appeal judgment on the Offshore Claim is considered as final.

As regards LFT's appeal on the Deduction Claim, upon the consent of the parties, the Court of First Instance has remitted the case stated to the Board of Review and directed it to make further findings of fact and to determine certain issues. As of the date of this annual report, further directions/decisions from the Board of Review are awaited.

6 TAXATION (CONTINUED)

The Group has also filed objections with the HKIR against the remaining additional tax assessments of US$205 million. The case before the Board of Review and eventually the Court of Appeal only applies to the additional tax assessments in respect of LFT for the years of assessment from 1992/93 to 2001/02. The Group's dispute with the HKIR regarding the remaining additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period after the 2001/02 assessment years, is ongoing and has not yet been determined. Such dispute is therefore not yet before the Board of Review, and no hearing is currently scheduled.

Based on the assessment of the Group's professional advisers on the merits of LFT's further appeal in respect of the Deduction Claim and the HKIR's further appeal in respect of the Offshore Claim (which has now been dismissed by the Court of Appeal), and having taken into account the impact and ramification that the Board of Review Decision has on the tax affairs of LFT, the directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the accounts in this regard.

On 11 June 2010, the Group also applied for a judicial review of the decision of the Commissioner of the HKIR rejecting LFT's application for an unconditional holdover of tax for the year of assessment 2008/09 pending the determination of the objection lodged with the HKIR. The Group purchased tax reserve certificates in respect of LFT for the year of assessment 2008/09 as directed by the Commissioner of the HKIR pending the decision of the judicial review application. As of the date of this annual report, the hearing date for the judicial review application is yet to be fixed.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of US$322,606,000 (2011: US$562,977,000) *(Note 26)*.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$617,416,000 (2011: US$681,229,000) and on the weighted average number of 8,287,162,000 (2011: 8,079,799,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 8,287,162,000 (2011: 8,079,799,000) ordinary shares in issue by 7,633,000 (2011: 35,476,000) to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme and release of all shares held by escrow agents for settlement of acquisition consideration. For the calculation of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

9 DIVIDENDS

	2012 US$'000	2011 US$'000
Interim, paid, of HK$0.15 (equivalent to US$0.019) (2011: HK$0.19 (equivalent to US$0.024)) per ordinary share	**160,721**	197,360
Final, proposed, of HK$0.16 (equivalent to US$0.021) (2011: HK$0.34 (equivalent to US$0.044)) per ordinary share	**171,495**	354,611
	332,216	551,971

At a meeting held on 21 March 2013, the Directors proposed a final dividend of HK$0.16 (equivalent to US$0.021) per share. The proposed dividends are not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2013 *(Note 26)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2012 US$'000	2011 US$'000
Salaries and bonuses	**1,179,166**	1,078,720
Staff benefits	**87,556**	78,259
Pension costs of defined contribution plans *(Note)*	**51,223**	47,117
Employee share option expenses	**2,248**	18,906
Pension costs of defined benefits plans *(Note 29)*	**3,610**	3,066
Long service payments	**222**	961
	1,324,025	1,227,029

NOTE: Forfeited contributions totalling US$2,237,000 (2011: US$1,142,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

The remuneration of every Director for the year ended 31 December 2012 is set out below:

	2012					
Name of Director	**Fees US$'000**	**Salary & allowance US$'000**	**Discretionary bonuses *(Note (i))* US$'000**	**Other benefits *(Note (ii))* US$'000**	**Employer's contribution to pension scheme US$'000**	**Total US$'000**
Executive directors						
William Fung Kwok Lun	**35**	**615**	**3,938**	**–**	**2**	**4,590**
Bruce Philip Rockowitz	**21**	**572**	**6,322**	**38**	**2**	**6,955**
Spencer Theodore Fung	**21**	**797**	**932**	**31**	**2**	**1,783**
Non-executive directors						
Victor Fung Kwok King	**56**	**–**	**–**	**–**	**–**	**56**
Paul Edward Selway-Swift	**59**	**–**	**–**	**–**	**–**	**59**
Allan Wong Chi Yun	**46**	**–**	**–**	**–**	**–**	**46**
Franklin Warren McFarlan	**46**	**–**	**–**	**–**	**–**	**46**
Martin Tang Yue Nien	**46**	**–**	**–**	**–**	**–**	**46**
Benedict Chang Yew Teck	**20**	**–**	**–**	**–**	**–**	**20**
Fu Yuning	**40**	**–**	**–**	**–**	**–**	**40**

NOTES:

(i) The discretionary bonuses paid in 2012 were in relation to performance and services for 2011.

(ii) Other benefits include leave pay, insurance premium and club membership.

	2011					
Name of Director	Fees US$'000	Salary & allowance US$'000	Discretionary bonuses *(Note (i))* US$'000	Other benefits *(Note (ii))* US$'000	Employer's contribution to pension scheme US$'000	Total US$'000
Executive directors						
William Fung Kwok Lun	21	615	4,105	–	2	4,743
Bruce Philip Rockowitz	21	572	4,104	43	2	4,742
Spencer Theodore Fung	21	1,024	301	10	2	1,358
Non-executive directors						
Victor Fung Kwok King	70	–	–	–	–	70
Paul Edward Selway-Swift	56	–	–	–	–	56
Allan Wong Chi Yun	46	–	–	–	–	46
Franklin Warren McFarlan	44	–	–	–	–	44
Martin Tang Yue Nien	45	–	–	–	–	45
Benedict Chang Yew Teck	19	–	–	–	–	19
Fu Yuning	7	–	–	–	–	7

NOTES:

(i) The discretionary bonuses paid in 2011 were in relation to performance and services for 2010.

(ii) Other benefits include leave pay, insurance premium and club membership.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (CONTINUED)

During the year, Shares were issued to certain directors of the Company pursuant to exercise of the following Share Options under the Option Scheme:

No. of Share Options exercised	Exercise Price	Exercisable Period
802,000 (2011: 880,000)	HK$12.77	01/3/2010 – 29/2/2012

As at 31 December 2012, certain directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
1,252,000 (2011: 1,252,000)	HK$12.77	01/3/2011 – 28/2/2013
354,000 (2011: 354,000)	HK$20.76	01/3/2011 – 28/2/2013
1,440,000 (2011: 1,440,000)	HK$20.21	01/5/2012 – 30/4/2015
1,440,000 (2011: 1,440,000)	HK$20.21	01/5/2013 – 30/4/2015
3,600,000 (2011: 3,600,000)	HK$20.21	01/5/2014 – 30/4/2016
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2013 – 30/4/2015
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2014 – 30/4/2016
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2015 – 30/4/2017
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2016 – 30/4/2018
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2017 – 30/4/2019
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2018 – 30/4/2020
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2019 – 30/4/2021
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2020 – 30/4/2022
1,000,000 (2011: 1,000,000)	HK$14.50	01/5/2021 – 30/4/2023

The closing market price of the Shares as at 31 December 2012 was HK$13.68.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2011: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2011: three) who were senior management during the year are as follows:

	2012 US$'000	2011 US$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,025**	4,053
Discretionary bonuses	**7,377**	5,951
Contributions to pension scheme	**5**	27
	11,407	10,031

Emolument bands	Number of individuals 2012	2011
HK$19,000,001 – HK$19,500,000 (approximately US$2,436,001 – US$2,500,000)	**1**	–
HK$19,500,001 – HK$20,000,000 (approximately US$2,500,001 – US$2,564,000)	**–**	1
HK$27,000,001 – HK$27,500,000 (approximately US$3,462,001 – US$3,526,000)	**–**	1
HK$30,000,001 – HK$30,500,000 (approximately US$3,846,001 – US$3,910,000)	**1**	–
HK$31,000,001 – HK$31,500,000 (approximately US$3,974,001 – US$4,038,000)	**–**	1
HK$39,000,001 – HK$39,500,000 (approximately US$5,000,001 – US$5,064,000)	**1**	–

There is no amount paid or payable to the directors as inducement to join the Group and compensation for loss of office as directors.

(c) SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments payable to the remaining senior management during the year fell within the following bands:

Emolument bands	Number of individuals 2012	2011
Below US$1,000,000	**2**	2
US$1,000,001 – US$1,500,000	**4**	3
US$1,500,001 – US$2,000,000	**1**	1
US$2,000,001 – US$2,500,000	**1**	1

12 INTANGIBLE ASSETS

	The Group								
				Other intangible assets					
	Goodwill US$'000	Brand licenses US$'000	Computer software and system development costs US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Others US$'000	Total US$'000
At 1 January 2012									
Cost	5,515,083	495,605	61,037	93,967	427,925	114,904	149,657	2,200	6,860,378
Accumulated amortization	–	(212,383)	(19,607)	(14,611)	(51,113)	(18,532)	(17,228)	(905)	(334,379)
Net book amount	5,515,083	283,222	41,430	79,356	376,812	96,372	132,429	1,295	6,525,999
Year ended 31 December 2012									
Opening net book amount	5,515,083	283,222	41,430	79,356	376,812	96,372	132,429	1,295	6,525,999
Exchange differences	38,198	956	159	–	2,466	2,161	506	–	44,446
Acquisition of businesses/subsidiaries *(Note 32)*	428,935	435	–	–	72,180	9,128	28,301	–	538,979
Adjustments to purchase consideration and net asset value[i]	(49,839)	6,320	–	–	4,000	–	3,000	–	(36,519)
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010[ii]	87,192	–	–	–	–	–	–	–	87,192
Additions	–	94,685	12,026	–	–	–	–	–	106,711
Disposal of businesses/subsidiary *(Note 31(c))*	–	–	(42)	–	–	–	–	–	(42)
Disposals	–	(9,280)	–	–	–	–	–	–	(9,280)
Amortization	–	(126,503)	(7,633)	(4,779)	(39,625)	(10,678)	(9,491)	(371)	(199,080)
Closing net book amount	6,019,569	249,835	45,940	74,577	415,833	96,983	154,745	924	7,058,406
At 31 December 2012									
Cost	6,019,569	586,052	73,154	93,967	506,902	126,341	181,476	2,200	7,589,661
Accumulated amortization	–	(336,217)	(27,214)	(19,390)	(91,069)	(29,358)	(26,731)	(1,276)	(531,255)
Net book amount	6,019,569	249,835	45,940	74,577	415,833	96,983	154,745	924	7,058,406

12 INTANGIBLE ASSETS (CONTINUED)

	The Group								
				Other intangible assets					
	Goodwill US$'000	Brand licenses US$'000	Computer software and system development costs US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Trademarks and brandnames US$'000	Others US$'000	Total US$'000
At 1 January 2011									
Cost	4,142,831	376,567	57,380	60,867	258,085	71,999	92,451	1,900	5,062,080
Accumulated amortization	–	(115,747)	(13,475)	(8,031)	(25,332)	(9,358)	(7,429)	(542)	(179,914)
Net book amount	4,142,831	260,820	43,905	52,836	232,753	62,641	85,022	1,358	4,882,166
Year ended 31 December 2011									
Opening net book amount	4,142,831	260,820	43,905	52,836	232,753	62,641	85,022	1,358	4,882,166
Exchange differences	(19,953)	(207)	(739)	–	(233)	(2,114)	(190)	–	(23,436)
Acquisition of businesses/subsidiaries	1,360,849	34,801	4	–	213,168	45,079	60,601	300	1,714,802
Adjustments to purchase consideration and net asset value[i]	25,820	16,291	–	33,100	(42,822)	–	(3,200)	–	29,189
Adjustments to purchase consideration for acquisitions completed prior to 1 January 2010[ii]	5,536	–	–	–	–	–	–	–	5,536
Additions	–	68,911	4,832	–	–	–	–	–	73,743
Disposal of businesses/subsidiary	–	–	–	–	(157)	–	–	–	(157)
Disposals	–	–	(367)	–	–	–	–	–	(367)
Amortization	–	(97,394)	(6,205)	(6,580)	(25,897)	(9,234)	(9,804)	(363)	(155,477)
Closing net book amount	5,515,083	283,222	41,430	79,356	376,812	96,372	132,429	1,295	6,525,999
At 31 December 2011									
Cost	5,515,083	495,605	61,037	93,967	427,925	114,904	149,657	2,200	6,860,378
Accumulated amortization	–	(212,383)	(19,607)	(14,611)	(51,113)	(18,532)	(17,228)	(905)	(334,379)
Net book amount	5,515,083	283,222	41,430	79,356	376,812	96,372	132,429	1,295	6,525,999

[i] *These are adjustments to purchase considerations and net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, which were previously determined on a provisional basis. During the measurement period, the Company recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Save as adjustments to goodwill and other intangible assets arising from business combination stated above, there were corresponding net adjustments to purchase consideration of US$53,681,000 (2011:US$8,425,000) and other assets/liabilities of approximately US$17,162,000 (2011: US$20,764,000).*

[ii] *For acquisitions completed prior to 1 January 2010, the effective date of HKFRS 3 (Revised) "Business Combination" being adopted by the Group, the changes in accrued contingent considerations determined based on post-acquisition performance were made against goodwill.*

12 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TEST FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to operating segment.

An operating segment-level summary of the goodwill allocation is presented below.

	The Group As at 31 December	
	2012	2011
	US$'000	US$'000
Trading Network	**1,915,799**	1,683,726
Logistics Network	**460,300**	460,300
Distribution Network	**3,643,470**	3,371,057
	6,019,569	5,515,083

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. Goodwill impairment review has been performed at the lowest level of CGU which generates cash flow independently. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on a one-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 5%. The discount rates used of approximately 11% are pre-tax and reflect specific risks related to the relevant segments. The budgeted gross margin and net profit margins are determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

13 PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Land and buildings US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Motor vehicles and company boat US$'000	Total US$'000
At 1st January 2011						
Cost	38,800	180,042	185,447	106,645	9,049	519,983
Accumulated depreciation	(5,029)	(67,518)	(112,844)	(21,273)	(4,133)	(210,797)
Net book amount	33,771	112,524	72,603	85,372	4,916	309,186
Year ended 31 December 2011						
Opening net book amount	33,771	112,524	72,603	85,372	4,916	309,186
Exchange differences	(1,323)	(1,174)	(1,160)	(1,429)	(43)	(5,129)
Acquisition of businesses/subsidiaries	–	932	4,383	350	220	5,885
Adjustments to purchase consideration and net asset value*	–	–	113	–	121	234
Additions	2,739	32,929	46,713	29,258	1,584	113,223
Disposals	(3,469)	(2,391)	(1,007)	(6,480)	(787)	(14,134)
Disposal of businesses/subsidiary	–	(100)	(129)	(544)	–	(773)
Disposals of properties/property holding subsidiary	(12,175)	–	–	–	–	(12,175)
Depreciation	(1,469)	(26,340)	(27,977)	(13,343)	(1,756)	(70,885)
Closing net book amount	18,074	116,380	93,539	93,184	4,255	325,432
At 31 December 2011						
Cost	19,218	205,264	217,604	119,889	7,739	569,714
Accumulated depreciation	(1,144)	(88,884)	(124,065)	(26,705)	(3,484)	(244,282)
Net book amount	18,074	116,380	93,539	93,184	4,255	325,432
Year ended 31 December 2012						
Opening net book amount	**18,074**	**116,380**	**93,539**	**93,184**	**4,255**	**325,432**
Exchange differences	**715**	**1,191**	**1,307**	**7,272**	**62**	**10,547**
Acquisition of businesses/subsidiaries *(Note 32)*	**23**	**20**	**1,225**	**1,281**	**33**	**2,582**
Additions	**118**	**86,694**	**59,641**	**27,643**	**1,710**	**175,806**
Disposals	**(134)**	**(2,612)**	**(1,098)**	**(620)**	**(480)**	**(4,944)**
Disposal of businesses/subsidiary *(Note 31(c))*	**–**	**(4,088)**	**(567)**	**(13)**	**(13)**	**(4,681)**
Depreciation	**(743)**	**(31,471)**	**(33,423)**	**(19,163)**	**(1,318)**	**(86,118)**
Closing net book amount	**18,053**	**166,114**	**120,624**	**109,584**	**4,249**	**418,624**
At 31 December 2012						
Cost	**20,056**	**278,386**	**269,951**	**145,392**	**7,166**	**720,951**
Accumulated depreciation	**(2,003)**	**(112,272)**	**(149,327)**	**(35,808)**	**(2,917)**	**(302,327)**
Net book amount	**18,053**	**166,114**	**120,624**	**109,584**	**4,249**	**418,624**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of US$62,955,000 (2011: US$52,357,000), US$17,778,000 (2011: US$13,389,000) and US$5,385,000 (2011: US$5,139,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses, and cost of sales respectively.

At 31 December 2012, land and buildings of US$3,995,000 (2011: US$3,990,000) were pledged as security for the Group's short-term bank loans *(Note 24)*.

* *Adjustments to net asset values related to certain acquisitions of businesses/subsidiaries in the prior year, that were previously determined on a provisional basis.*

14 PREPAID PREMIUM FOR LAND LEASES

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value is analyzed as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,628**	2,715
Leases of over 50 years	**445**	429
	3,073	3,144

	The Group	
	2012	2011
	US$'000	US$'000
Beginning of the year	**3,144**	3,814
Disposal	**–**	(77)
Disposal of properties/property holding subsidiary	**–**	(239)
Amortization of prepaid premium for land leases	**(178)**	(180)
Exchange differences	**107**	(174)
End of the year	**3,073**	3,144

Amortization of US$176,000 (2011: US$170,000) and US$2,000 (2011: US$10,000) has been expensed in selling and distribution expenses, and merchandising and administrative expenses respectively.

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	US$'000	US$'000
Unlisted shares, at cost	**1,089,285**	1,089,285
Loan to a subsidiary	**250,319**	250,319
	1,339,604	1,339,604

The loan to a subsidiary is interest free and unsecured. The Company does not have any intention to seek repayment from the subsidiary.

Details of principal subsidiaries are set out on in *Note 41*.

16 ASSOCIATED COMPANIES

	The Group	
	2012	2011
	US$'000	US$'000
Beginning of the year	**7,015**	6,140
Share of profits less losses of associated companies	**638**	1,231
Dividend received	**(124)**	(300)
Exchange differences	**42**	(56)
Total interest in associated companies	**7,571**	7,015

Details of principal associated companies are set out in *Note 41*.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2012	2011
	US$'000	US$'000
Beginning of the year	**70,574**	84,330
Partial repayment of debt security	**(10,000)**	(13,000)
Disposals	**–**	(944)
Fair value gains on available-for-sale financial assets *(Note 26)*	**112**	188
Net impairment provision	**(88)**	–
End of the year	**60,598**	70,574

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	The Group	
	2012	2011
	US$'000	US$'000
Unlisted securities:		
– Debt security *(Note)*	**57,000**	67,000
– Others	**3,598**	3,574
	60,598	70,574

NOTE: In November 2009, the Group subscribed for an unlisted debt security (the "Promissory Note") from an independent third party of US$90,000,000. The Promissory note is interest bearing at 7.5% per annum and repayable by 30 June 2014. It is secured by, among other things, certain collaterals such as trademarks, patents and licenses. The maximum exposure to credit risk at the reporting date is the carrying value of the Promissory Note. The value of the Promissory Note is determined with discounted cash flow analysis based on the prevailing required rate of return at balance sheet date of certain comparable debt instruments in the market.

Available-for-sale financial assets are denominated in the following currencies:

	The Group	
	2012	2011
	US$'000	US$'000
HK dollar	**3,598**	3,560
US dollar	**57,000**	67,000
Pound Sterling	**–**	14
	60,598	70,574

18 INVENTORIES

	The Group	
	2012	2011
	US$'000	US$'000
Finished goods	**782,466**	992,426
Raw materials	**156,612**	43,362
	939,078	1,035,788

At 31 December 2012, no inventories (2011: US$48,250,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

19 DUE FROM/(TO) RELATED COMPANIES

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Due from:				
Subsidiaries	**–**	–	**4,728,264**	3,855,441
Associated companies	**11,499**	9,876	**–**	–
Related companies	**80,945**	7,072	**–**	–
	92,444	16,948	**4,728,264**	3,855,441
Due to:				
Associated companies	**–**	333	**–**	–
Related companies	**8,484**	12,342	**–**	–
	8,484	12,675	**–**	–

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to US$11,226,000 (2011: US$9,710,000) which are unsecured but interest bearing at approximately 5% per annum. The fair values of amounts due from related companies are approximately the same as the carrying values.

20 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2012	2011
	US$'000	US$'000
Forward foreign exchange contracts – (liabilities)/assets *(Note 39)*	**(4,821)**	13,743

Losses in equity of US$1,015,000 (2011: Gains of US$9,474,000) on forward foreign exchange contracts as of 31 December 2012 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date *(Note 26)*.

For the years ended 31 December 2012 and 2011, there was no material ineffective portion recognized in the profit or loss account arising from cash flow hedges.

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Trade and bills receivable – net	**2,242,678**	2,004,542	**–**	–
Other receivables, prepayments and deposits	**445,339**	466,847	**250**	249
	2,688,017	2,471,389	**250**	249
Less: non-current portion				
Deposits	**(19,949)**	(12,537)	**–**	–
	2,668,068	2,458,852	**250**	249

The fair values of the Group's and the Company's trade and other receivables were approximately the same as their carrying values as at 31 December 2012.

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing of trade and bills receivable based on invoice date is as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Current to 90 days	**2,105,072**	1,879,710
91 to 180 days	**105,351**	100,825
181 to 360 days	**24,766**	13,178
Over 360 days	**7,489**	10,829
	2,242,678	2,004,542

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers internationally dispersed.

As of 31 December 2012, trade receivables of US$2,194,418,000 (2011: US$1,969,722,000) that are current or less than 90 days past due are not considered impaired. Trade receivables of US$48,260,000 (2011: US$34,820,000) were past due over 90 days but not considered to be impaired. These relate to a number of independent customers for whom there is no recent history of default. The past due ageing of these trade receivables is as follows:

	The Group	
	2012	2011
	US$'000	US$'000
91 to 180 days	**36,246**	15,935
Over 180 days	**12,014**	18,885
	48,260	34,820

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31 December 2012, outstanding trade receivables of US$36,974,000 (2011: US$26,827,000) and other receivables of US$18,774,000 (2011: US$27,087,000) were considered impaired and were fully provided. The individually impaired receivables mainly relate to transactions in disputes.

Movements in the Group's provision for impairment of trade and other receivables are as follows:

	The Group	
	2012	2011
	US$'000	US$'000
At 1 January	**53,914**	45,244
Provision for receivable impairment *(Note 4)*	**13,259**	18,232
Receivables written off during the year as uncollectible	**(10,539)**	(6,882)
Unused amounts reversed *(Note 4)*	**(886)**	(2,680)
At 31 December	**55,748**	53,914

The creation and release of provision for impaired receivables have been included in selling and distribution expenses in the consolidated profit and loss account *(Note 4)*. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Save as disclosed as above, the other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$35,666,000 (2011: US$40,298,000) to banks in exchange for cash as at 31 December 2012. The transaction has been accounted for as collateralized bank advances.

At 31 December 2012, no trade receivables (2011: US$8,820,000) were pledged as security for the Group's bank overdrafts *(Note 24)*.

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
HK dollar	**220,601**	219,602	**250**	249
US dollar	**1,748,336**	1,626,663	**–**	–
Euro dollar	**227,337**	244,333	**–**	–
Pound sterling	**122,154**	78,011	**–**	–
Renminbi	**156,882**	104,649	**–**	–
Malaysia Ringgit	**52,297**	42,126	**–**	–
Thailand Baht	**53,954**	52,252	**–**	–
Others	**86,507**	91,216	**–**	–
	2,668,068	2,458,852	**250**	249

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Cash and bank balances	**680,379**	426,240	**1,553**	295
Bank overdrafts – Secured *(Note 24)*	**–**	(225)	**–**	–
	680,379	426,015	**1,553**	295

The effective interest rate at the balance sheet date on bank balances was 0.4% (2011: 1.1%) per annum; these deposits have an average maturity period of 6 days (2011: 38 days).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Trade and bills payable	**2,458,128**	2,336,991	**–**	–
License royalty payable *(Note 28)*	**25,689**	53,614	**–**	–
Other accrued charges and sundry payables	**801,771**	680,599	**10,406**	9,760
	827,460	734,213	**10,406**	9,760
	3,285,588	3,071,204	**10,406**	9,760

The fair values of the Group's and the Company's trade and other payables were approximately the same as their carrying values as at 31 December 2012.

At 31 December 2012, the ageing of trade and bills payable based on invoice date is as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Current to 90 days	**2,376,236**	2,254,085
91 to 180 days	**67,050**	56,542
181 to 360 days	**3,007**	7,474
Over 360 days	**11,835**	18,890
	2,458,128	2,336,991

24 BANK BORROWINGS

	The Group 2012 US$'000	2011 US$'000
Long-term bank loans		
– Unsecured *(Note 28)*	**100,000**	105,489
Short-term bank loans		
– Secured	**4,200**	4,713
– Unsecured	**113,319**	107,223
	117,519	111,936
Bank overdrafts *(Note 22)*		
– Secured	**–**	225
	–	225
Total bank borrowings	**217,519**	217,650

As at 31 December 2012 and 2011 the carrying amounts of the Group's borrowings approximated their fair values.

The effective interest rates at the balance sheet date were as follows:

	2012 HKD	2012 USD	2012 EUR	2012 GBP	2012 RMB	2011 HKD	2011 USD	2011 EUR	2011 GBP	2011 RMB
Long-term bank loans	**–**	**2.5%**	**–**	**–**	**–**	1.5%	0.9%	–	–	–
Short-term bank loans	**1.1%**	**1.7%**	**–**	**–**	**5.9%**	1.5%	1.3%	–	–	–
Bank overdrafts	**–**	**–**	**–**	**–**	**–**	–	6.3%	2.9%	6.3%	–

The Group's contractual repricing dates for borrowings are all three months or less.

The carrying amounts of the borrowings are denominated in the following currencies:

	The Group 2012 US$'000	2011 US$'000
HK dollar	**46,252**	56,188
US dollar	**101,500**	127,500
Euro dollar	**–**	222
Pound Sterling	**–**	427
Renminbi	**23,988**	–
Others	**45,779**	33,313
	217,519	217,650

25 SHARE CAPITAL AND OPTIONS

	No. of shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
At 1 January 2011, ordinary shares of HK$0.025 each	6,000,000	150,000	19,231
Share Subdivision *(Note (a))*	6,000,000	–	–
At 31 December 2011, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 1 January 2012, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 31 December 2012, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
At 1 January 2011, ordinary shares of HK$0.025 each	4,024,469	100,612	12,899
Exercise of share options before Share Subdivision	23,290	582	74
Share Subdivision *(Note (a))*	4,047,760	–	–
Exercise of share options after Share Subdivision	8,635	108	14
At 31 December 2011, ordinary shares of HK$0.0125 each	8,104,154	101,302	12,987
At 1 January 2012, ordinary shares of HK$0.0125 each	**8,104,154**	**101,302**	**12,987**
Issue of shares upon a private placing *(Note (b))*	**210,000**	**2,625**	**337**
Exercise of share options	**44,894**	**561**	**72**
At 31 December 2012, ordinary shares of HK$0.0125 each	**8,359,048**	**104,488**	**13,396**

NOTES:

(a) At the 2011 Annual General Meeting of the Company held on 18 May 2011, an ordinary resolution was duly passed under which each of the existing issued and unissued shares of HK$0.025 each in the share capital of the Company as of 19 May 2011 was subdivided (the "Share Subdivision") into two shares of HK$0.0125 each.

All the Share Options which were granted and remained outstanding as of 19 May 2011 were adjusted with the Share Subdivision and accordingly, the number of Share Options increased by one share for each share in the Share Options and the subscription prices per Share were adjusted by half.

(b) Pursuant to a placing agreement dated 27 March 2012, Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited) ("FH (1937)") placed 210,000,000 existing shares of HK$0.0125 each in the share capital of the Company to not less than six independent professional, institutional and/or individual investors at a price of HK$18.62 per share and subscribed from the Company for the same number of shares at the same price before taking into account the placing commission and other expenses borne or incurred by FH (1937) in relation to the placing and/or the subscription. The net proceeds of the subscription amounted to approximately US$498,260,000 and were used by the Company as general working capital of the Group, including funding future business development and acquisitions by the Group from time to time.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding at 31 December 2012 are as follows:

			Number of Share Options					
Grant Date	Exercise Price HK$	Exercisable period	As at 1/1/2012	Granted	Exercised	Cancelled	Lapsed	As at 31/12/2012
20/6/2005	6.72	20/6/2009 – 19/6/2012	5,336,000	–	(5,226,000)	–	(110,000)	–
23/1/2006	6.86	20/6/2009 – 19/6/2012	924,000	–	(924,000)	–	–	–
19/6/2006	7.82	20/6/2009 – 19/6/2012	420,000	–	(320,000)	–	(100,000)	–
2/2/2007	12.75	20/6/2009 – 19/6/2012	2,688,000	–	(1,956,000)	–	(732,000)	–
13/7/2007	14.96	20/6/2009 – 19/6/2012	872,000	–	(872,000)	–	–	–
24/1/2008	12.77	1/3/2010 – 29/2/2012	24,704,800	–	(19,822,800)	(2,882,000)	(2,000,000)	–
24/1/2008	12.77	1/3/2011 – 28/2/2013	37,123,000	–	(8,787,000)	–	–	28,336,000
21/5/2008	15.00	1/3/2010 – 29/2/2012	1,344,000	–	(984,000)	(180,000)	(180,000)	–
21/5/2008	15.00	1/3/2011 – 28/2/2013	2,206,000	–	(522,000)	–	–	1,684,000
13/8/2008	13.10	1/3/2010 – 29/2/2012	1,552,300	–	(895,600)	(408,800)	(247,900)	–
13/8/2008	13.10	1/3/2011 – 28/2/2013	2,602,800	–	(659,800)	–	–	1,943,000
24/2/2009	8.61	1/3/2010 – 29/2/2012	684,000	–	(116,000)	(416,000)	(152,000)	–
24/2/2009	8.61	1/3/2011 – 28/2/2013	1,604,000	–	(532,000)	–	–	1,072,000
14/8/2009	13.90	1/3/2010 – 29/2/2012	2,241,000	–	(1,998,800)	(90,400)	(151,800)	–
14/8/2009	13.90	1/3/2011 – 28/2/2013	3,616,400	–	(1,272,200)	–	–	2,344,200
25/3/2010	20.76	1/3/2011 – 28/2/2013	4,866,600	–	–	–	–	4,866,600
15/11/2010	22.42	1/3/2011 – 28/2/2013	2,357,200	–	–	–	–	2,357,200
11/4/2011	20.21	1/5/2012 – 30/4/2015	32,860,000	–	–	–	–	32,860,000
11/4/2011	20.21	1/5/2013 – 30/4/2015	33,404,000	–	–	–	–	33,404,000
11/4/2011	20.21	1/5/2014 – 30/4/2016	83,226,000	–	–	–	–	83,226,000
21/11/2011	15.20	1/5/2012 – 30/4/2015	2,039,000	–	(6,000)	–	–	2,033,000
21/11/2011	15.20	1/5/2013 – 30/4/2015	4,228,000	–	–	–	–	4,228,000
21/11/2011	15.20	1/5/2014 – 30/4/2016	9,457,000	–	–	–	–	9,457,000
22/12/2011	14.50	1/5/2013 – 30/4/2015	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2014 – 30/4/2016	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2015 – 30/4/2017	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2016 – 30/4/2018	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2017 – 30/4/2019	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2018 – 30/4/2020	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2019 – 30/4/2021	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2020 – 30/4/2022	3,000,000	–	–	–	–	3,000,000
22/12/2011	14.50	1/5/2021 – 30/4/2023	3,000,000	–	–	–	–	3,000,000
26/6/2012	15.09	1/5/2013 – 30/4/2015	–	3,789,000	–	(47,000)	–	3,742,000
26/6/2012	15.09	1/5/2014 – 30/4/2016	–	8,447,000	–	(90,000)	–	8,357,000
12/11/2012	13.04	1/5/2013 – 30/4/2015	–	822,000	–	(9,000)	–	813,000
12/11/2012	13.04	1/5/2014 – 30/4/2016	–	3,042,000	–	(28,000)	–	3,014,000
		Total	287,356,100	16,100,000	(44,894,200)	(4,151,200)	(3,673,700)	250,737,000

Subsequent to 31 December 2012, 1,349,400 Shares have been allotted and issued under the Option Scheme.

25 SHARE CAPITAL AND OPTIONS (CONTINUED)

Employee share option expenses charged to the consolidated profit and loss account are determined with the Black-Scholes valuation model based on the following assumptions:

Date of grant	11/4/2011	21/11/2011	22/12/2011	26/6/2012	28/9/2012
Option value *(Note)*	US\$0.45 – US\$0.57	US\$0.42 – US\$0.53	US\$0.45 – US\$0.77	US\$0.33 – US\$0.40	US\$0.29 – US\$0.34
Share price at date of grant *(Note)*	HK\$20.21	HK\$14.24	HK\$14.14	HK\$14.38	HK\$12.52
Exercisable price *(Note)*	HK\$20.21	HK\$15.20	HK\$14.50	HK\$15.09	HK\$13.04
Standard deviation	33%	48%	49%	43%	42%
Annual risk-free interest rate	0.29%-1.80%	0.14%-0.84%	0.15%-1.35%	0.17%-0.37%	0.21%-0.26%
Life of options	4–5 years	4–5 years	4–12 years	3–4 years	3–4 years
Dividend yield	2.39%	2.39%	2.39%	3.09%	3.09%

NOTE: Prior year information have been adjusted for the effect of the Bonus Issue in May 2006 and the Share Subdivision in May 2011.

26 RESERVES

(a) THE GROUP

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Deferred benefit obligation US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2012	(8,503)	3,618	47,237	2,496	9,474	(3,549)	(78,212)	(27,439)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	48,060	48,060
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	112	–	–	–	112
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(10,489)	–	–	(10,489)
Net actuarial loss from post employment benefits	–	–	–	–	–	(1,889)	–	(1,889)
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	2,248	–	–	–	–	2,248
– transfer to share premium	–	–	(15,655)	–	–	–	–	(15,655)
Release of shares held by escrow agent for settlement of acquisition consideration	1,764	–	–	–	–	–	–	1,764
Transfer to capital reserve	–	124	–	–	–	–	–	124
At 31 December 2012	(6,739)	3,742	33,830	2,608	(1,015)	(5,438)	(30,152)	(3,164)

26 RESERVES (CONTINUED)

(a) THE GROUP (CONTINUED)

	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Capital reserve *(Note (i))* US$'000	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Deferred benefit obligation US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2011	(23,385)	3,544	45,826	2,308	(752)	–	(50,409)	(22,868)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	(27,803)	(27,803)
Net fair value gains on available-for-sale financial assets, net of tax *(Note 17)*	–	–	–	188	–	–	–	188
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	10,226	–	–	10,226
Net actuarial loss from post employment benefits	–	–	–	–	–	(3,549)	–	(3,549)
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	18,906	–	–	–	–	18,906
– transfer to share premium	–	–	(17,495)	–	–	–	–	(17,495)
Release of shares held by escrow agent for settlement of acquisition consideration	14,882	–	–	–	–	–	–	14,882
Transfer to capital reserve	–	74	–	–	–	–	–	74
At 31 December 2011	(8,503)	3,618	47,237	2,496	9,474	(3,549)	(78,212)	(27,439)

26 RESERVES (CONTINUED)

(b) THE COMPANY

	Share premium US$'000	Shares held by escrow agent for settlement of acquisition consideration *(Note (iii))* US$'000	Contributed surplus account *(Note (ii))* US$'000	Employee share-based compensation reserve US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2012	**3,114,097**	**(8,503)**	**264,189**	**47,237**	**499,815**	**3,916,835**
Net profit for the year	**–**	**–**	**–**	**–**	**322,606**	**322,606**
Issue of shares upon a private placing	**497,923**	**–**	**–**	**–**	**–**	**497,923**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**2,248**	**–**	**2,248**
– proceeds from shares issued	**69,337**	**–**	**–**	**–**	**–**	**69,337**
– transfer to share premium	**15,655**	**–**	**–**	**(15,655)**	**–**	**–**
Release of shares held by escrow agent for settlement on acquisition consideration	**–**	**1,764**	**–**	**–**	**–**	**1,764**
2011 final dividend paid	**–**	**–**	**–**	**–**	**(363,999)**	**(363,999)**
2012 interim dividend paid	**–**	**–**	**–**	**–**	**(160,721)**	**(160,721)**
Reserves	**3,697,012**	**(6,739)**	**264,189**	**33,830**	**126,206**	**4,114,498**
Proposed dividend	**–**	**–**	**–**	**–**	**171,495**	**171,495**
At 31 December 2012	**3,697,012**	**(6,739)**	**264,189**	**33,830**	**297,701**	**4,285,993**
Balance at 1 January 2011	3,015,794	(23,385)	264,189	45,826	404,049	3,706,473
Net profit for the year	–	–	–	–	562,977	562,977
Employee share option scheme:						
– value of employee services	–	–	–	18,906	–	18,906
– proceeds from shares issued	80,808	–	–	–	–	80,808
– transfer to share premium	17,495	–	–	(17,495)	–	–
Release of shares held by escrow agent for settlement on acquisition consideration	–	14,882	–	–	–	14,882
2010 final dividend paid	–	–	–	–	(269,851)	(269,851)
2011 interim dividend paid	–	–	–	–	(197,360)	(197,360)
Reserves	3,114,097	(8,503)	264,189	47,237	145,204	3,562,224
Proposed dividend	–	–	–	–	354,611	354,611
At 31 December 2011	3,114,097	(8,503)	264,189	47,237	499,815	3,916,835

26 RESERVES (CONTINUED)

(b) THE COMPANY (CONTINUED)

NOTES:

(i) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with the local statutory requirements.

(ii) The contributed surplus account of the Company represents:

(1) The difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to US$14,232,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

(2) The difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to US$249,957,000. At Group level, the amount is set off against goodwill arising from the acquisition.

(iii) The Company issued shares for acquisitions of CGroup and Regatta in 2007. These Shares were held by escrow agents and valued at the respective agreed upon issue price. During the year, certain portions of these shares amounted to approximately US$1,764,000 were released to the vendors as the settlement of deferred considerations. At the balance sheet date, the remaining shares held by the escrow agent amounted to approximately US$6,739,000 were deducted from total equity. The total amount of deferred consideration for the acquisition of CGroup and Regatta had been finalized. Accordingly, the remaining shares held by the escrow agent for CGroup and Regatta of approximately US$6,739,000 were considered as treasury shares of the Company as of 31 December 2012.

27 PERPETUAL CAPITAL SECURITIES

On 8 November 2012, the Company issued subordinated perpetual capital securities (the "Perpetual Capital Securities") with the aggregate principal amount of US$500 million. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The amount as at 31 December 2012 included the accrued distribution payments.

28 LONG-TERM LIABILITIES

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Long-term loans from non-controlling shareholders	**–**	4,910	**–**	–
Long-term bank loans *(Note 24)*	**100,000**	105,489	**–**	–
Long-term notes – unsecured	**1,255,461**	1,256,007	**1,255,461**	1,256,007
Balance of purchase consideration payable for acquisitions	**1,648,275**	1,970,376	**–**	–
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**–**	1,764	**–**	–
License royalty payable	**190,926**	225,036	**–**	–
Other non-current liability (non-financial liability)	**67,414**	66,530	**–**	–
	3,262,076	3,630,112	**1,255,461**	1,256,007
Current portion of balance of purchase consideration payable for acquisitions	**(329,570)**	(323,712)	**–**	–
Current portion of balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	**–**	(1,764)	**–**	–
Current portion of license royalty payable *(Note 23)*	**(25,689)**	(53,614)	**–**	–
	2,906,817	3,251,022	**1,255,461**	1,256,007

Balance of purchase consideration for acquisitions and long-term loans from non-controlling shareholders are unsecured, interest-free and not repayable within twelve months. Unsecured long-term notes issued to independent third parties in 2007 of US$497,895,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US$757,566,000 will mature in 2020 and bear annual coupon of 5.25%.

Balance of consideration payable for acquisitions to be settled by cash as at 31 December 2012 included performance-based earnout and earnup contingent consideration of US$822,703,000 and US$825,572,000, respectively (2011: US$1,073,257,000 and US$897,119,000). Earnout is a contingent consideration that would be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earnup is contingent consideration that would be realized if the acquired businesses achieve certain growth target, calculated based on the base year profits, during the designated period of time.

Earnout and earnup of certain acquisitions were remeasured during the year, details are set out in *Note 4 and Note 12*.

28 LONG-TERM LIABILITIES (CONTINUED)

The maturity of the financial liabilities is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**355,259**	379,090	**–**	–
Between 1 and 2 years	**487,827**	509,996	**–**	–
Between 2 and 5 years	**1,539,970**	1,094,110	**497,895**	–
Wholly repayable within 5 years	**2,383,056**	1,983,196	**497,895**	–
Over 5 years	**811,606**	1,580,386	**757,566**	1,256,007
	3,194,662	3,563,582	**1,255,461**	1,256,007

The fair values of the financial liabilities (non-current portion) are as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Loans from non-controlling shareholders	**–**	4,910
Long-term bank loans – unsecured	**100,000**	105,489
Long-term notes – unsecured	**1,411,800**	1,324,800
Balance of purchase consideration payable for acquisitions	**1,318,705**	1,646,664
License royalty payable	**165,237**	171,422
	2,995,742	3,253,285

The carrying amounts of financial liabilities are denominated in the following currencies:

	The Group	
	2012	2011
	US$'000	US$'000
Hong Kong dollar	**18,510**	148,120
US dollar	**2,870,710**	2,970,644
Pound sterling	**129,087**	193,826
Euro dollar	**176,355**	233,809
Others	**–**	17,183
	3,194,662	3,563,582

29 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group	
	2012	2011
	US$'000	US$'000
Pension obligations *(Note)*	**13,339**	7,713
Long service payment liabilities	**5,047**	5,383
	18,386	13,096

NOTE: The Group participates in a number of defined benefit plans in certain countries. Most of these pension plans are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds. The Group's defined benefit plans are valued by qualified actuaries annually using the projected unit credit method.

(i) The amount recognized in the consolidated balance sheet is determined as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Present value of obligations	**50,661**	43,808
Fair value of plan assets	**(30,274)**	(28,936)
	20,387	14,872
Unrecognized actuarial losses	**(7,050)**	(7,173)
Amount not recognized as assets	**2**	14
Pension obligations	**13,339**	7,713

(ii) The amount recognized in the consolidated profit and loss account is as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Current service cost	**3,004**	2,795
Interest cost	**1,373**	1,358
Expected return on plan assets	**(1,182)**	(1,361)
Net actuarial loss recognized during the year	**329**	349
Gains on curtailments and settlements	**86**	(75)
Total, included in staff costs *(Note 10)*	**3,610**	3,066

29 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(iii) The movements in the fair value of plan assets of the year are as follows:

	The Group 2012 US$'000	2011 US$'000
At 1 January	**28,936**	28,792
Expected return on plan assets	**1,182**	1,361
Actuarial gains/(losses)	**293**	(941)
Exchange differences	**1,260**	(480)
Transferred out	**–**	(113)
Employer contributions	**1,911**	1,676
Benefits paid	**(3,308)**	(1,359)
At 31 December	**30,274**	28,936

(iv) Movement in the pension obligations recognized in the consolidated balance sheet:

	The Group 2012 US$'000	2011 US$'000
At 1 January	**7,713**	4,576
Total expense – as shown in (ii)	**3,610**	3,066
Contributions paid	**(1,911)**	(1,821)
Exchange difference	**22**	(151)
Liabilities acquired in business combination	**2,400**	426
Net actuarial loss recognized through reserve	**1,505**	1,617
At 31 December	**13,339**	7,713

(v) The principal actuarial assumptions used are as follows:

	2012 %	2011 %
Discount rate	**0.6–6.25**	1.75–7.75
Expected rate of return on plan assets	**1.5–5.5**	1.75–6.5
Expected rate of future salary increases	**3–8**	3–8
Expected rate of future pension increases	**2.8**	2.9

(vi) Experience adjustments (loss)/gain:

	The Group 2012 US$'000	2011 US$'000
Experience adjustments on plan liabilities	**(1,904)**	(2,469)
Experience adjustments on plan assets	**293**	(941)

29 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

The details for the post-employment benefit obligations for the current annual period and previous four years are as follows:

	The Group				
	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
At 31 December					
Present value of defined benefit obligation	**50,661**	43,808	38,863	28,361	23,459
Fair value of plan assets	**(30,274)**	(28,936)	(28,792)	(18,957)	(17,911)
Deficit in the plan	**20,387**	14,872	10,071	9,404	5,548
Experience adjustments on plan liabilities	**(1,904)**	(2,469)	394	(5,394)	(408)
Experience adjustments on plan assets	**293**	(941)	1,283	185	(1,931)

30 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2011: 16.5%).

The movement on the net deferred tax liabilities is as follows:

	The Group	
	2012 US$'000	2011 US$'000
At 1 January	**28,728**	9,180
(Credited)/charged to consolidated profit and loss account *(Note 6)*	**(14,403)**	18,886
Acquisition of businesses/subsidiaries *(Note 32)*	**(5,102)**	(38)
Adjustments to purchase consideration and net asset value	**–**	572
Disposal of subsidiaries	**–**	135
Credited to hedging reserve	**(4,345)**	–
Exchange differences	**(756)**	(7)
At 31 December	**4,122**	28,728

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US$777,540,000 (2011: US$542,956,000) to carry forward against future taxable income, out of which US$100,515,000 will expire during 2013–2032. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

30 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	The Group									
	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
Deferred tax assets	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000
As at 1 January	**64,479**	44,455	**2,990**	2,835	**29,888**	39,264	**159**	786	**97,516**	87,340
Credited/(charged) to consolidated profit and loss account	**34,806**	20,262	**1,574**	268	**4,771**	(9,279)	**604**	(627)	**41,755**	10,624
Acquisition of businesses/subsidiaries	**2,669**	–	**–**	38	**2,709**	–	**–**	–	**5,378**	38
Disposal of businesses/subsidiary	**–**	–	**–**	–	**–**	(151)	**–**	–	**–**	(151)
Credited to hedging reserve	**–**	–	**–**	–	**–**	–	**1,141**	–	**1,141**	–
Exchange differences	**411**	(238)	**59**	(151)	**176**	54	**206**	–	**852**	(335)
As at 31 December	**102,365**	64,479	**4,623**	2,990	**37,544**	29,888	**2,110**	159	**146,642**	97,516

	The Group							
	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred tax liabilities	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000
As at 1 January	**27,719**	11,018	**92,705**	82,736	**5,820**	2,766	**126,244**	96,520
Charged/(credited) to consolidated profit and loss account	**13,408**	16,766	**13,974**	9,397	**(30)**	3,347	**27,352**	29,510
Acquisition of businesses/subsidiaries	**114**	–	**–**	–	**162**	–	**276**	–
Adjustments to purchase consideration and net asset value	**–**	–	**–**	572	**–**	–	**–**	572
Disposal of businesses/subsidiary	**–**	(16)	**–**	–	**–**	–	**–**	(16)
Credited to hedging reserve	**–**	–	**–**	–	**(3,204)**	–	**(3,204)**	–
Exchange differences	**(68)**	(49)	**–**	–	**164**	(293)	**96**	(342)
As at 31 December	**41,173**	27,719	**106,679**	92,705	**2,912**	5,820	**150,764**	126,244

30 DEFERRED TAXATION (CONTINUED)

After offsetting balances within the same tax jurisdiction, the balances as disclosed in the consolidated balance sheet are as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Deferred tax assets	**66,962**	24,148
Deferred tax liabilities	**(71,084)**	(52,876)
	(4,122)	(28,728)

	The Group	
	2012	2011
	US$'000	US$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**53,236**	16,666
Deferred tax assets to be recovered within 12 months	**13,726**	7,482
Deferred tax liabilities to be settled after more than 12 months	**40,605**	45,512
Deferred tax liabilities to be settled within 12 months	**30,479**	7,364

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW GENERATED FROM OPERATIONS

	2012 US$'000	2011 US$'000
Profit before taxation	**676,617**	772,064
Interest income	**(20,385)**	(19,490)
Interest expenses	**135,109**	128,594
Depreciation	**86,118**	70,885
Amortization of computer software and system development costs	**7,633**	6,205
Amortization of brand licenses	**126,503**	97,394
Amortization of other intangible assets arising from business combinations	**64,944**	51,878
Amortization of prepaid premium for land leases	**178**	180
Share of profits less losses of associated companies	**(638)**	(1,231)
Employee share option expenses	**2,248**	18,906
Loss on disposal of property, plant and equipment	**1,504**	2,222
Loss on disposal of computer software and system development costs	**–**	367
Net provision for impairment of available-for-sale financial assets	**88**	–
Gain on disposal of businesses/subsidiary	**(29,635)**	(50,994)
Gain on disposal of properties/property holding subsidiary	**–**	(13,666)
Remeasurement adjustment to acquisition payable	**(325,591)**	–
Operating profit before working capital changes	**724,693**	1,063,314
Decrease/(increase) in inventories	**100,173**	(119,856)
(Increase)/decrease in trade and bills receivable, other receivables and amount due from related companies	**(169,640)**	139,535
Increase/(decrease) in trade and bills payable and other payables	**9,957**	(95,935)
Net cash inflow generated from operations	**665,183**	987,058

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2012 Share capital including share premium *(Note 25 & 26)* US$'000	**2012** Bank loans US$'000	2011 Share capital including share premium *(Note 25 & 26)* US$'000	2011 Bank loans US$'000
At 1 January	**3,127,084**	**217,425**	3,028,693	191,194
Non cash movement				
Transfer from employee share-based compensation reserve	**15,655**	**–**	17,495	–
Acquisition of businesses	**–**	**–**	–	748
	3,142,739	**217,425**	3,046,188	191,942
Issue of shares upon a private placing	**498,260**	**–**	–	–
Net proceeds from issue of shares	**69,409**	**–**	80,896	–
Net drawdown of bank loans	**–**	**94**	–	25,483
At 31 December	**3,710,408**	**217,519**	3,127,084	217,425

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY

Details of net assets of disposed businesses/subsidiary at date of disposal are set out below:

	2012 US$'000
Net assets disposed	
Intangible assets *(Note 12)*	**42**
Property, plant and equipment *(Note 13)*	**4,681**
Inventory	**26,844**
Trade and bills receivable	**14,736**
Other receivables, prepayments and deposits	**2,936**
Cash and bank balances	**6,448**
Trade and bills payable	**(4,781)**
Accrued charges and sundry payables	**(6,483)**
Taxation	**(850)**
Book value of net assets disposed	**43,573**

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) DISPOSAL OF BUSINESSES/SUBSIDIARY (CONTINUED)

Analysis of net inflow of cash and cash equivalents in respect of the disposal:

	2012 US$'000
Consideration received	**74,548**
Consideration receivables	**(25,103)**
Expenses incurred in respect of the disposal	**(1,340)**
Cash and cash equivalents disposed	**(6,448)**
Net inflow of cash and cash equivalents in respect of disposal of businesses/subsidiary	**41,657**

Analysis of gain on disposal of businesses/subsidiary:

	2012 US$'000
Consideration net of expenses incurred	**73,208**
Less: Net assets disposed	**(43,573)**
Gain on disposal of businesses/subsidiary *(Note 4)*	**29,635**

32 BUSINESS COMBINATIONS

During the year, the Group completed a series of acquisitions to expand the Group's existing scale of operation and enlarge the Group's market presence. The Group was not required to made an announcement in accordance with Chapter 14 of the Listing Rules for any individual acquisition completed during the year since none of the acquisitions, on a standalone basis, would be sufficiently material to be recognized as notifiable transaction, and, accordingly no disclosure is provided of the details and impact of any individual acquisition. However, on a collective basis, the estimated aggregate undiscounted total consideration amounted to approximately US$630 million, among which aggregate initial considerations paid was approximately US$309 million and the aggregate potential undiscounted performance-based contingent consideration payable could range from nil to US$321 million. The fair value of the aggregate contingent consideration payable of approximately US$611 million was determined based on applying agreed multiples to the estimated post-acquisition performance of the acquired businesses/subsidiaries and time value of money.

32 BUSINESS COMBINATIONS (CONTINUED)

The contributions of these acquisitions to the Group in this year, the contributions and the result of these acquisitions to the Group as if these acquisitions had occurred on 1 January 2012 are as follows:

	Contribution of the acquired businesses/ subsidiaries for the year ended 31 December 2012 US$'000	Contribution of the acquired businesses/ subsidiaries as if the acquisitions had occurred on 1 January 2012 US$'000	Group results as if the acquisitions had occurred on 1 January 2012 US$'000
Turnover	**276,459**	**697,622**	**20,642,969**
Total margin	**71,107**	**166,427**	**3,059,115**
Operating costs	**(34,027)**	**(100,482)**	**(2,519,077)**
Core operating profit	**37,080**	**65,945**	**540,038**
Profit after tax	**28,233**	**44,691**	**635,079**

Details of net assets acquired, goodwill and acquisition-related costs are as follows:

	US$'000
Purchase consideration to be settled by cash	**610,795**
Less: Fair value of net assets acquired*	**(181,860)**
Goodwill *(Note 12)*	**428,935**
Acquisition-related costs (included in other non-core operating expenses in the consolidated profit and loss account for the year ended 31 December 2012)	**10,752**

* *As at 31 December 2012, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalized the fair value assessments. The relevant fair value of individual assets/liabilities stated above are provisional.*

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses. Goodwill recognized of US$76,345,000 is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATIONS (CONTINUED)

The initial carrying amounts of the assets and liabilities, other than intangible assets arising from business combinations, of the acquired businesses approximate their fair values at respective acquisition dates and are as follows:

	US$'000
Net assets acquired:	
Intangible assets *(Note 12)* [i]	
– Customer relationships	**72,180**
– Licensor relationships	**9,128**
– Trademarks	**28,301**
– Brand licenses	**435**
Property, plant and equipment *(Note 13)*	**2,582**
Deposits	**10,900**
Inventories	**31,226**
Trade and bills receivable [ii]	**95,489**
Other receivables, prepayments and deposits	**8,594**
Cash and bank balances	**16,524**
Tax payables	**(2,781)**
Trade and bills payables	**(44,999)**
Accrued charges and sundry payables	**(49,836)**
Bank overdrafts	**(779)**
Bank advance for discounted bills	**(206)**
Deferred tax assets *(Note 30)*	**5,102**
Fair value of net assets acquired	**181,860**

i *Intangible assets arising from business combinations represent customer relationships, trademarks, licensor relationships, brand licenses and various other smaller intangible assets. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination".*

ii *The fair value of trade and bills receivables with a fair value of US$95,489,000 which are expected to be collectible in full.*

32 BUSINESS COMBINATIONS (CONTINUED)

Details of these acquisitions are as follow:

In February 2012, the Group acquired Algreta Solutions Limited. It is a source tagging recycling solution provider to apply electronic article surveillance (EAS) tags on retail merchandise.

In March 2012, the Group acquired business of Added Extras LLC and Palamon (International) Ltd. Added Extras LLC is a leading marketer of licensed youth cosmetics and personal care products. Palamon (International) Ltd is a leading role-play costumes and party accessories trading company servicing mass and toy retailers.

In June 2012, the Group acquired the business of Dragon Concept HK Ltd. It is a design driven virtual manufacturer supplying fashion bags, shoes, and accessories.

In July 2012, the Group acquired Fashion Lab Ltd and the business of Lotta Luv. Fashion Lab Ltd is a dynamic license apparel wholesaler for infants, kids and women segments in Europe. Lotta Luv focuses on licensed and branded lip balms and personal care products for youths.

In August 2012, the Group acquired the business of Brilliant Global Ltd. Brilliant Global Ltd is a design driven virtual manufacturing, specializing in ladies' sweaters targeted to the junor.

In November 2012, the Group acquired the business of Foreign Resources Corporation. Foreign Resources Corporation is an apparel agent/supplier with expertise in outerwear, swim and sportswear products.

In December 2012, the Group acquired Mint Group and Lornamead Group. Mint Group specialized in the licensing business for children characters in Southeast Asia. Lornamead Group is a private company managing a portfolio of traditional and heritage personal brands in the US, Germany and UK.

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	US$'000
Purchase consideration	**610,795**
Purchase consideration payable *	**(302,609)**
Cash and cash equivalents acquired	**(15,745)**
Net outflow of cash and cash equivalents in respect of the acquisitions	**292,441**

* *Balances are the discounted aggregate estimated fair value of deferred considerations payable for the acquired businesses as at respective acquisition dates, which included performance-based earnout and earnup contingent considerations of US$191,140,000 and US$111,469,000. Final amounts of consideration settlements will be determined based on future performance of the acquired businesses.*

33 CONTINGENT LIABILITIES

	The Group		The Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**4,356,913**	3,530,212
Associated companies	**750**	750	**–**	–
	750	750	**4,356,913**	3,530,212

34 COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 17 years. At 31 December 2012, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2012	2011
	US$'000	US$'000
Within one year	**184,398**	192,411
In the second to fifth year inclusive	**450,618**	494,911
After the fifth year	**539,995**	549,867
	1,175,011	1,237,189

(b) CAPITAL COMMITMENTS

	The Group	
	2012	2011
	US$'000	US$'000
Contracted but not provided for:		
Property, plant and equipment	**1,619**	14,713
Computer software and system development costs	**12,151**	11,729
Authorised but not contracted for:		
Property, plant and equipment	**60,654**	74,072
Computer software and system development costs	**8,981**	38,791
	83,405	139,305

35 CHARGES ON ASSETS

Save as disclosed in *Note 13*, *Note 18* and *Note 21*, at 31 December 2012 and 2011 there were no charges on the assets and undertakings of the Company and the Group.

36 RELATED PARTY TRANSACTIONS

Pursuant to the master agreement for leasing of properties that the Company entered into with FH (1937), a substantial shareholder of the Company, on 13 January 2011, the Group leased certain properties from FH (1937) and its associates during the year with aggregate rental paid of US$24,267,000 (2011: US$23,913,000).

On 19 January 2012, the Group entered into a sales and purchase agreement with LiFung Kids (Holdings) Limited ("LiFung Kids"), a subsidiary of FH (1937), for its divestment of certain apparel retailing business at cash consideration of approximately US$22.4 million.

On the same date, the Group also entered into a new distribution and sale of goods agreement ("the "Master Distribution and Sale of Goods Agreement") with FH (1937) to set out the framework of the terms for distribution and sales of goods by the Group to the FH (1937) Group for a term of three years from 1 January 2012 to 31 December 2014. This Master Distribution and Sale of Goods Agreement replaces the original distribution and sale of goods agreement expiring on 31 December 2012 and covers the scope of business contemplated under the Group's agreement to engage LiFung Kids as the Group's exclusive retail distributor for certain branded children's apparel, children's footwear and various other related products in Hong Kong, the PRC and Macau.

On 16 December 2012, the Group entered into a sales and purchase agreement with ILC International Corporation, an indirect subsidiary of FH (1937), for the disposal of retail of apparel and accessories of the "Roots" brand at a consideration of approximately US$52 million. Further to the sale and purchase agreement, on 25 December 2012, the Group, as a master licensee of the "Roots" brand in some Asian countries entered into a distribution agreement to appoint a subsidiary of ILC International Corporation, Branded Lifestyle Trading (Asia) Limited, as the distributor for an initial term commencing from 1 January 2013 and ending on 31 January 2021, with a conditional renewable term of another ten years. The transactions contemplated under this distribution agreement fall within the scope of the Master Distribution and Sale of Goods Agreement. Based on this Master Distribution and Sale of Goods Agreement, the Group recorded sales of US$27,448,000 (2011: US$2,816,000) for the year.

During the year, there were certain expenses incurred by FH (1937) and recharged to the Group amounting to approximately US$7,692,000 (2011: US$6,154,000).

The foregoing related party transactions also fall under the definition of continuing connected transactions of the Company as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Save as above, the Group had no material related party transactions during the year.

37 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) MARKET RISK

(i) Foreign exchange risk

Most of the Group's cash balances were deposits in HK$ and US$ with major global financial institutions, and the Group's revenues and payments were transacted predominantly in US$. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations.

There are a small portion of sales and purchases transacted in different currencies which the Group would arrange hedging by means of foreign exchange forward contracts. Other than this, the Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2012, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure had strengthened/weakened by 10% (2011: 10%) against US and HK dollar with all other variables held constant, net profit for the year and equity would have been approximately 1.9% (2011: 2.0%) and 1.8% (2011: 2.0%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, available-for-sale financial assets, borrowings and intangible assets.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group maintains these equity securities investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2012 and up to the report date of the accounts, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2012, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$4,821,000 (2011: assets of US$13,743,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments liabilities.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for available-for-sale debt security, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from US dollar denominated bank borrowings and the US dollar denominated long-term notes issued. Bank borrowings at variable rates expose the group to cash flow interest rate risk. The available-for-sale debt security issued at a fixed interest rate exposes the Group to fair value interest rate risk. The Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(iii) Cash flow and fair value interest rate risk (continued)

At 31 December 2012, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, net profit for the year and equity would have been approximately US$1,535,000 (2011: US$2,368,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings. If the prevailing market interest rate on the available-for-sale debt security had been 0.1% higher/lower with all other variables held constant, the Group's profit would have been increased or decreased by approximately US$183,000 (2011: US$213,000).

(b) CREDIT RISK

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group.

Most of the Group's cash and bank balances are held in major global financial institutions.

The Group has stringent policies in place to manage its credit risk with trade and other receivables, which include but are not limited to the measures set out below:

(i) The Group selects customers in a cautious manner. Its credit control team has implemented a risk assessment system to evaluate its customers' financial strengths prior to agreeing at the trade terms with individual customers. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from a small number of its customers that fall short of the required minimum score under its Risk Assessment System;

(ii) A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;

(iii) It has in place a close monitoring system with a dedicated team to ensure on-time recoveries from its trade debtors;

(iv) Internally it has set up rigid policies on provision made for both inventories and receivables to motivate its business managers to step up efforts in these two areas so as to avoid any significant impact on their financial performance.

The Group's five largest customers, in aggregate, account for less than 30% of the Group's business. Transactions with these customers are entered into within the credit limits designated by the Group.

Except for trade receivables of US$36,974,000 (2011: US$26,827,000) and other receivables of US$18,774,000 (2011: US$27,087,000) were impaired and fully provided, none of the other financial assets including available-for-sale debt security *(Note 17)*, due from related companies *(Note 19)* and other receivables and deposits *(Note 21)* impaired as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents *(Note 22)*) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's liabilities (including annual coupons payable for the long-term notes and issued financial guarantee contracts) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts will not reconcile to the amounts disclosed on the balance sheet and in *Note 28* for long-term liabilities.

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
The Group				
At 31 December 2012				
Bank loans	**–**	**–**	**100,000**	**–**
Balance of purchase consideration payable for acquisitions	**330,410**	**439,680**	**878,622**	**37,935**
Long-term notes – unsecured	**66,875**	**66,875**	**686,875**	**848,438**
License royalty payable	**26,010**	**74,270**	**85,261**	**18,038**
Trade and bills payable	**2,458,128**	**–**	**–**	**–**
Accrued charges and sundry payables	**827,460**	**–**	**–**	**–**
Financial guarantee contract	**750**	**–**	**–**	**–**
At 31 December 2011				
Bank loans	–	49,000	56,489	–
Balance of purchase consideration payable for acquisitions	334,651	417,924	975,010	284,365
Long-term notes – unsecured	66,875	66,875	200,625	1,401,563
License royalty payable	58,651	67,566	87,191	24,613
Trade and bills payable	2,336,991	–	–	–
Accrued charges and sundry payables	734,213	–	–	–
Financial guarantee contract	750	–	–	–
The Company				
At 31 December 2012				
Long-term notes – unsecured	**66,875**	**66,875**	**686,875**	**848,438**
Financial guarantee contract	**4,356,913**	**–**	**–**	**–**
Accrued charges and sundry payables	**10,406**	**–**	**–**	**–**
At 31 December 2011				
Long-term notes – unsecured	66,875	66,875	200,625	1,401,563
Financial guarantee contract	3,530,247	–	–	–
Accrued charges and sundry payables	9,760	–	–	–

38 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans *(Note 24)*, long-term bank loans *(Note 24)* and long-term notes *(Note 28)* less cash and cash equivalents *(Note 22)*). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 US$'000	2011 US$'000
Long-term bank loans *(Note 24)*	**100,000**	105,489
Short-term bank loans *(Note 24)*	**117,519**	111,936
Long-term notes *(Note 28)*	**1,255,461**	1,256,007
	1,472,980	1,473,432
Less: Cash and cash equivalents *(Note 22)*	**(680,379)**	(426,015)
Net debt	**792,601**	1,047,417
Total equity	**5,144,927**	3,938,606
Total capital	**5,937,528**	4,986,023
Gearing ratio	**13%**	21%

39 FAIR VALUE ESTIMATION

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

39 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Available-for-sale financial assets *(Note 17)*				
– Debt securities	**–**	**57,000**	**–**	**57,000**
– Club debentures	**–**	**–**	**3,598**	**3,598**
Total assets	**–**	**57,000**	**3,598**	**60,598**
Liabilities				
Derivative financial instruments used for hedging *(Note 20)*	**–**	**4,821**	**–**	**4,821**
Balance of purchase consideration payable for acquisitions	**–**	**–**	**1,648,275**	**1,648,275**
Total liabilities	**–**	**4,821**	**1,648,275**	**1,653,096**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivative financial instruments used for hedging *(Note 20)*	–	13,743	–	13,743
Available-for-sale financial assets *(Note 17)*				
– Debt securities	–	67,000	–	67,000
– Equity securities	–	–	14	14
– Club debentures	–	–	3,560	3,560
Total assets	–	80,743	3,574	84,317
Liabilities				
Balance of purchase consideration payable for acquisitions	–	–	1,970,376	1,970,376
Balance of purchase consideration payable for acquisitions to be settled by shares issued and held by escrow agent	–	–	1,764	1,764
Total liabilities	–	–	1,972,140	1,972,140

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

39 FAIR VALUE ESTIMATION (CONTINUED)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

	Balance of purchase consideration payable for acquisitions US$'000	Others US'000	Total US'000
Opening balance	**1,970,376**	**3,574**	**1,973,950**
Fair value gains	**–**	**38**	**38**
Net impairment provision	**–**	**(14)**	**(14)**
Additions	**302,609**	**–**	**302,609**
Settlement	**(358,755)**	**–**	**(358,755)**
Remeasurement of acquisitions payable	**(325,591)**	**–**	**(325,591)**
Others	**59,636**	**–**	**59,636**
Closing balance	**1,648,275**	**3,598**	**1,651,873**

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 21 March 2013.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Held directly				
(2)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(2)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(2)	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(1)	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
	888 UK Limited	England	Ordinary GBP100	100	Service company
	Added Extras LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	AGI Logistics (S) Pte Ltd	Singapore	Ordinary S$500,000	100	Freight forwarders and other logistics services
(2)	AGI Logistics Foreign Holdings LLC	U.S.A.	Capital contribution Nil	100	Investment holding
	Algreta Solutions Limited	England	Ordinary GBP10,527	100	Sale and distribution of security products
	Alster International Trading Company Pte. Ltd.	Singapore	Ordinary S$5,000,000	100	Provision of inspection services and export trading
	Alstersee 158 V V GmbH	Germany	EUR25,000	100	Provision of accounting services
	American Marketing Enterprises Inc.	U.S.A.	Common stock US$1,000	100	Wholesaling
(2)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Avanguardia S.r.l.	Italy	Registered capital EUR26,000	100	Research, design and logistical advice
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Bossini Fashion GmbH	Germany	EUR468,000	100	Importer
	Bravado Star Manufacturing, LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	Briefly Stated Holdings, Inc.	U.S.A.	Common stock US$1,000	100	Investment holding
	Briefly Stated, Inc.	U.S.A.	Common stock US$3,000	100	Wholesaling
	British Heritage Brands, LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	BS Direct Limited	Hong Kong	Ordinary HK$2	100	Export trading
	C Group US LLC	U.S.A.	Capital contribution US$1,000	100	Marketing services
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Manufacturing and trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
	Catalyst Direct Sarl	France	Ordinary EUR10,000	100	Wholesaling
	Catalyst Tags Inc.	U.S.A.	Common stock US$10,000	100	Distribution
(2)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	EUR8,931,250	100	Investment holding
	CGroup HK Limited	Hong Kong	Ordinary HK$2,970,000 Class B Non-voting HK$330,000	100	Export trading
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Civati Limited	Hong Kong	Ordinary US$450,000	100	Export trading
(2)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(2)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Colourful Express Trading Pte. Ltd.	Singapore	Ordinary S$2	100	Investment holding

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Colourful Lifestyle Productions Limited	Hong Kong	Ordinary HK$1,170,000	100	Provision of agency services
	Comet Feuerwerk GmbH	Germany	EUR1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Costume Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Covo Design (Dongguan) Co., Ltd.	The People's Republic of China	US$4,000,000	100 foreign-owned enterprise	Sample production and exporting trading services
	Craftworks Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Crimzon Rose Accessories (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Crimzon Rose Asia Limited	Hong Kong	Ordinary HK$3	100	Wholesaling
	Crimzon Rose Inc.	U.S.A.	Common stock US$1	100	Wholesaling
	Dana International Limited	Hong Kong	Ordinary HK$2	100	Investment holding
	Definitive Sourcing (India) Private Limited	India	Rps100,000	100	Buying services for sourcing goods
(2)	Direct SG Mexico Ltd	Mexico	Common nominative shares MXP50,000	100	Service and import trading
(2)	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Direct Sourcing Group Investment Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$200,000	100	Export trading
(2)	Dongguan LF Beauty Manufacturing Services Limited	The People's Republic of China	HK$11,220,000	100 foreign-owned enterprise	Trading and manufacturing
	DSG (Bangladesh) Limited	Bangladesh	Ordinary TK$3,750,000	100	Export trading services
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	DSG Services Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading services
(2)	Eclat Properties Inc.	British Virgin Islands	Ordinary US$100	100	Property investment
(2)	Empire Knight Group Limited	British Virgin Islands	Ordinary US$1	100	Property investment
	Eslite Design Limited	Hong Kong	Ordinary HK$2	100	Provision of design services
	F&T Apparel LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(2)	Far East Logistics (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,500,000	100 foreign-owned enterprise	Wholesaling
	Fashion Design (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Design
	Fashion Design NY LLC	U.S.A.	Capital contribution US$1	100	Design
	Fashion Lab Ltd	England	Ordinary GBP200	100	Brand licensing and design
	Fenix Fashion Limited	Hong Kong	Ordinary HK$1	100	General trading of merchandise
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	Frye Retail, LLC	U.S.A.	Capital contribution US$1	100	Retailing and wholesaling
	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Netherlands Antilles	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
(2)	GSCM LLC (formerly known as International Sources LLC)	U.S.A.	Capital contribution US$1	100	Trading of apparel
	Hanson Im-und Export GmbH	Germany	EUR26,000	100	Wholesaling
	Heusel Textilhandelsgesellschaft mbH	Germany	EUR225,645.94	100	Wholesaling
	Homestead International Group Ltd.	U.S.A.	Voting common stock US$901 Non-voting common stock US$99	100 voting	Importer
(2)	Homeworks (Europe) B.V.	The Netherlands	Ordinary EUR18,000	100	Export trading
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
	HTL Fashion (UK) Limited (formerly known as HTL Fashions (UK) Limited)	England	Ordinary GBP1	100	Design and export trading
(2)	HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi	Turkey	YTL25,000	100	Manufacturing
	HTP Fashion Limited	Hong Kong	Ordinary HK$1	100	Manufacturing and trading
	IDS Group Limited	British Virgin Islands	Ordinary US$949,165	100	Investment holding
	IDS International (Shanghai) Co., Ltd.	The People's Republic of China	RMB5,500,000	100 foreign-owned enterprise	Freight forwarders and other logistics services
(2)	IDS International USA Inc.	U.S.A.	Common stock US$1	100	Logistics and Supply Chain Management
	IDS Manufacturing Limited	Thailand	Ordinary Baht 469,500,000	100	Manufacturing of household, pharmaceutical and personal care products
	IDS Manufacturing Sdn. Bhd.	Malaysia	Ordinary RM23,000,000	100	Manufacturing of pharmaceutical, foods and toiletries products
	IDS USA Inc.	U.S.A.	Common stock US$1	100	Provision of logistics services
	Imagine POS Limited	Hong Kong	Ordinary "A" HK$2,000,000 Ordinary "B" HK$199,980	100	Export trading
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	JAC TISSOT Solutions GmbH	Germany	EUR52,000	100	Importer
	Jackel Cosmetics Limited	Hong Kong	Class "A" HK$100,000 Class "B" non-voting HK$13,890	100	Export trading
(2)	Jackel France SAS	France	Ordinary EUR37,500	100	Export trading
	Jackel International (Asia) Limited	Hong Kong	Ordinary "A" HK$346,500 Ordinary "B" HK$49,500	100	Export trading
(2)	Jackel International Europe SAS	France	Ordinary EUR105,000	100	Export trading
	Jackel International Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jackel Vision Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Jackel, Inc.	U.S.A.	Class "A" voting common stock US$1 Class "B" non-voting common stock US$99	100	Export trading
	Janco International Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	JDH Marketing (Thailand) Limited	Thailand	Ordinary Baht 210,000,000	100	Marketing and distribution of healthcare products
	Jimlar Corporation	U.S.A.	Common stock US$974.260769	100	Wholesaling
	Jimlar Europe AG	Switzerland	Registered shares CHF335,000	100	Wholesaling
	Just Jamie and Paulrich Limited	England	Ordinary GBP439	100	Wholesaling
(2)	JV Cosmetics (Dongguan) Co. Ltd.	The People's Republic of China	HK$105,000,000	100 foreign-owned enterprise	Manufacturing and trading
	JV Cosmetics Company Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Kenas Pacific Trading (Pte.) Ltd.	Singapore	Ordinary S$100	100	Export trading services
	KHQ Investment LLC	U.S.A.	Capital contribution US$100	100	Wholesaling
	Kingsbury International Limited	Hong Kong	Ordinary HK$2	100	Export trading
	KVZ International Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	La Villa Development Limited	Hong Kong	Ordinary HK$1	100	Design and marketing of toys
	LamaLoLi GmbH	Germany	EUR25,000	100	Wholesaling
(2)	Lenci Calzature SpA	Italy	EUR206,400	100	Design, marketing and sourcing
	LF (Philippines), Inc. (formerly known as IDS (Philippines), Inc.)	The Philippines	Pesos 21,000,000	100	Distribution of consumer products and provision of logistics services
	LF Accessories Group LLC	U.S.A.	Capital contribution US$1	100	Export trading
(2)	LF Asia (Borneo) Sdn Bhd	Brunei Darussalam	Ordinary B$3,000,000	70	General merchandising, shipping and insurance agency
	LF Asia (Hong Kong) Limited	Hong Kong	Ordinary HK$146,000,000	100	Distribution of consumer and pharmaceutical products
	LF Asia (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM14,231,002	100	Distribution of consumer and pharmaceutical products
	LF Asia (Singapore) Pte. Ltd.	Singapore	Ordinary S$300,000 Preference S$60,000	100	Distribution of healthcare products
	LF Asia (Thailand) Limited (formerly known as IDS Marketing (Thailand) Limited)	Thailand	Ordinary Baht 16,000,000 Preference Baht 5,500,000 25% paid up	100	Distribution of consumer and pharmaceutical products
	LF Asia Distribution (Taiwan) Limited	Hong Kong	Ordinary HK$1	100	Distribution of consumer products
	LF Asia Limited	Hong Kong	Ordinary HK$2	100	Provision of management services
	LF Asia Marketing (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM400,000	100	Distribution of consumer products
(2)	LF Asia Sebor (Sabah) Holdings Sdn. Bhd.	Malaysia	Ordinary RM11,000,000	60	Investment holding, provision of management and warehousing services
(2)	LF Asia Sebor (Sabah) Sdn. Bhd.	Malaysia	Ordinary RM9,850,000	60	Distribution of consumer products
(2)	LF Asia Sebor (Sarawak) Holdings Sdn. Bhd.	Malaysia	Ordinary RM9,503,333	67.09	Investment holding, provision of management and warehousing services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(2)	LF Asia Sebor (Sarawak) Sdn. Bhd.	Malaysia	Ordinary RM5,000,000	67.09	Distribution of consumer products
(2)	LF Beauty (Shenzhen) Limited	The People's Republic of China	HK$8,500,000	100 foreign-owned enterprise	Export trading services
	LF Beauty (UK) Limited	England	Ordinary GBP100	100	Design, marketing and manufacturing
	LF Beauty Inc.	U.S.A.	Common stock US$1	100	Investment holding
	LF Beauty Limited	Hong Kong	Ordinary HK$1	100	Export trading
	LF Beauty LLC	U.S.A.	Capital contribution US$1	100	Investment holding
	LF Beauty Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	LF Capital (II) Limited	British Virgin Islands	Class "A" US$185 Class "B" US$115	75	Investment holding
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	LF Centennial Service (Singapore) Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Credit Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of trade-related services
	LF Europe (Germany) GmbH	Germany	EUR25,000	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
(2)	LF European Capital Limited	British Virgin Islands	Ordinary US$1	75	Investment holding
	LF Fashion (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
	LF Fashion Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Fashion Service Pte. Ltd.	Singapore	Ordinary S$10,000	100	Wholesaling
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Provision of supply chain management services
	LF Freight (Singapore) Pte. Limited	Singapore	Ordinary S$2	100	Provision of supply chain management services
(2)	LF Freight (USA) LLC	U.S.A.	Capital contribution Nil	100	Freight forwarders and other logistics services
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
	LF Logistics (Bangladesh) Limited	Bangladesh	Ordinary TK$10,000,000	100	Freight forwarding
	LF Logistics (Cambodia) Limited	Cambodia	Ordinary Riels 20,000,000	100	Freight forwarding and other logistics services
	LF Logistics (China) Co., Ltd.	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Provision of Freight forwarders and other logistics services
	LF Logistics (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Provision of logistics services
	LF Logistics (India) Private Limited	India	Ordinary Rs15,000,000	100	Logistics, supply chain management and freight forwarding
	LF Logistics (Taiwan) Limited	Hong Kong	Ordinary HK$200	100	Provision of logistics and packaging services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	LF Logistics (Thailand) Limited (formerly known as IDS Logistics (Thailand) Limited)	Thailand	Ordinary Baht 307,750,000	100	Provision of logistics services
	LF Logistics (UK) Limited (formerly known as IDS Logistics (UK) Limited)	England	Ordinary GBP50,000	100	Provision of logistics services
	LF Logistics Holdings (UK) Limited	England	Ordinary GBP1	100	Investment holding
(2)	LF Logistics Pakistan (Private) Limited	Pakistan	Ordinary Rs5,000,000	100	Freight forwarders and other logistics services
	LF Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	LF Logistics Services Pte. Ltd.	Singapore	Ordinary S$28,296,962	100	Provision of logistics services
	LF Men's Group LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	LF National Brands Group LLC	U.S.A.	Capital contribution US$1	100	Design and marketing
	LF North America Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
	LF Products (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services
	LF Products (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading
	LF Products Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US$1	100	Sourcing and export trading
	LF Sourcing Sportswear LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	LF USA Inc.	U.S.A.	Common stock US$751,767,801 9.5% Preferred stock US$0.17	100	Distribution and wholesaling
(2)	LFCF Investment I (Europe) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
(2)	LFCF Investment I (USA) Limited	British Virgin Islands	Ordinary US$1	100	Investment management
	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary TK$9,500,000	100	Export trading services
	Li & Fung (Brasil) Trading, Importacao E Exportacao Ltda	Brazil	Common shares R$333,559	100	Service provider
	Li & Fung (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	100	Export trading services
	Li & Fung (Chile) Limitada	Chile	Chilean Pesos $5,500,000	100	Export trading
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Investment holding
(2)	Li & Fung (Guatemala) S.A.	Guatemala	Nominative shares Q5,000	100	Export trading services
(2)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rupees 64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock Won 200,000,000	100	Export trading services
(2)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rupees 750,000 "B" Shares Rupees 500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	Ordinary Dirhams10,000	100	Export trading
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading services

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Li & Fung (Philippines) Inc.	The Philippines	Common shares Peso 1,000,000	100	Export trading services
(2)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT$63,000,000	100	Sourcing and inspection
	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 20,000,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading services and investment holding
	Li & Fung (Vietnam) Limited	Vietnam	Charter capital US$800,000	100	Export trading services
	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	EUR99,759.58	100	Export trading services
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL15,639,650	100	Export trading services
	Li & Fung Pakistan (Private) Limited	Pakistan	Ordinary Rs10,000,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
	Li & Fung Taiwan Investments Limited	British Virgin Islands	Ordinary US$4,912,180	100	Investment holding
(2)	Li & Fung Trading (Italia) S.r.l.	Italy	EUR100,000	100	Export trading
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	Lighthouse Asia Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Merchandising agent, freight forwarding and logistic services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
	Lornamead Acquisitions Limited	England	Ordinary GBP17,276.155	100	Investment holding
	Lornamead GmbH	Germany	EUR25,000	100	Manufacture of perfumes and toilet preparations
	Lornamead Group Limited	England	Ordinary GBP50,814,401.20	100	Investment holding
	Lornamead Inc.	U.S.A.	Common stock US$2,682.48975	100	Wholesaling
	Lornamead UK Limited	England	Ordinary GBP100	100	Manufacture of perfumes and toilet preparations
	Lotta Luv Beauty LLC	U.S.A.	Capital contribution US$1	100	Brand and licensing

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Lux Plush Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Export trading
	Match Winner Vertriebs-GmbH	Germany	EUR26,000	100	Wholesaling
(2)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Meredith Associates Limited	Hong Kong	Ordinary US$1,001	100	Investment holding
	MESH LLC	U.S.A.	Capital contribution US$1	75	Wholesaling
	Metro Seven LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	Midway Enterprises (Guangzhou) Ltd.	The People's Republic of China	US$8,570,000	100 foreign-owned enterprise	Manufacture and distribution of licensed children's apparel and accessories
	Mighty Hurricane Holdings Inc.	U.S.A.	Common stock of US$100	100	Wholesaling
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
	Miles Fashion GmbH	Germany	EUR11,000,000	100	Importer
	Miles Fashion Group France EURL	France	EUR10,000	100	Wholesaling
	Miles Fashion USA, Inc.	U.S.A.	Common stock US$1,000	100	Importer
	Millwork (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of design, concept development services and back office administration services
	Millwork (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
	Millwork Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding
	Millwork Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	Modium Konfeksiyon Sanayi ve Ticaret Abnonim Sirketi	Turkey	A Shares YTL2,249,975 B Shares YTL25	100	Manufacturing
	Nanjing LF Asia Company Limited	The People's Republic of China	US$5,000,000	100 foreign-owned enterprise	Import/export and distribution of general merchandise
	On-Tip LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	P.T. Lifung Indonesia	Indonesia	Ordinary US$500,000	100	Export trading services
	Pacific Alliance USA, Inc.	U.S.A.	Common stock US$1	100	Wholesaling
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
	PATCH Licensing LLC	U.S.A.	Capital contribution US$1	66.67	Wholesaling
	Perfect Trading Inc.	Egypt	LE2,480,000	60	Export trading services
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black Holdings Limited	England	Ordinary GBP16,268,648.75	100	Investment holding
	Peter Black International Limited	England	Ordinary GBP1,020.42	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Phil Henson GmbH	Germany	EUR50,000	100	Importer
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	PromOcean France SAS	France	EUR8,530,303	100	Wholesaling
	PromOcean GmbH	Germany	EUR25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Spain SL	Spain	EUR3,005.06	100	Wholesaling
	PromOcean The Netherlands B.V.	The Netherlands	EUR39,379.5	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	PT Direct Sourcing Indonesia	Indonesia	Ordinary US$250,000	100	Export trading services
	PT. IDS Marketing Indonesia	Indonesia	Ordinary Rp1,000,000,000	85	Marketing and distribution of consumer and pharmaceutical products
	PT. LF Asia Manufacturing Indonesia	Indonesia	Ordinary Rp453,600,000	100	Manufacturing of personal care and household products
	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and other services
	Ralsey Group Limited	U.S.A.	Common stock US$1	100	Wholesaling
(2)	Ratners Enterprises Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	Region Giant Holdings Limited	British Virgin Islands	Ordinary US$31	100	Investment holding
	Rhodes Limited	Hong Kong	Ordinary US$1,000	100	Export trading and sourcing
	Rosetti Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Rosetti Handbags and Accessories, Ltd.	U.S.A.	Common stock US$1	100	Wholesaling
	RT Sourcing (Shenzhen) Co. Ltd.	The People's Republic of China	HK$1,000,000	100 foreign-owned enterprise	Export trading services
	RT Sourcing Asia Limited	Hong Kong	HK$102,000	100	Export trading
	RT Sourcing USA Inc.	U.S.A.	Common stock US$6	100	Importer
	RVVW Apparel LLC	U.S.A.	Capital contribution Nil	100	Wholesaling
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management
	Shanghai IDS Logistics Co., Ltd.	The People's Republic of China	RMB1,000,000	100 foreign-owned enterprise	Provision of logistics services
	Shanghai IDS Marketing Co., Ltd.	The People's Republic of China	RMB1,000,000	100 foreign-owned enterprise	Retailing and wholesaling
	Shanghai LF Asia Healthcare Co., Ltd.	The People's Republic of China	RMB6,000,000	100 foreign-owned enterprise	Distribution of pharmaceutical products
	Shenzhen Catalyst Trading Co., Ltd.	The People's Republic of China	US$120,000	100 foreign-owned enterprise	Security tag trading
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export trading
	Shubiz Limited	England	Ordinary GBP2	100	Design, marketing and sourcing
	Shutoo Limited	England	Ordinary GBP1	100	Design, marketing and sourcing
	Silvereed (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading
(2)	Simkar 2 Limited	Cayman Islands	Ordinary US$50,000	100	Investment holding
(2)	Simkar Limited	Cayman Islands	Ordinary US$49,999.75	100	Investment holding
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Sports Brands Italia Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
(2)	STS Shenzhen Testing Service Limited	The People's Republic of China	US$660,000	100 foreign-owned enterprise	Testing and technology consultation
	T.V.M. Design Services Ltd	Israel	Ordinary NIS100	100	Design and marketing
(2)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Texnorte II-Industrias Texteis, Limitada	Portugal	EUR5,000	100	Export trading services
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	TH Success Limited	Hong Kong	Ordinary HK$1,560,000	100	Export trading
	The Mint Group Pte. Ltd.	Singapore	Ordinary S$100	100	Sub-licensing
	Toonsland Limited	Hong Kong	Ordinary HK$200,000	100	Distribution of children's apparel and accessories
	Toy Island (USA) LLC	U.S.A.	Capital contribution US$100	100	Marketing
	Toy Island Manufacturing Company Limited	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	TVM Europe GmbH	Germany	EUR25,000	100	Wholesaling
	TVMania Italy S.r.l.	Italy	EUR10,000	100	Wholesaling
	TVMania UK Limited	England	Ordinary GBP2	100	Wholesaling
	Ventana Bekleidungsfabrikation GmbH	Germany	EUR26,000	100	Wholesaling
	Visage (Hong Kong) Limited	Hong Kong	Ordinary HK$100,000	100	Design and marketing
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Holdings Limited	England	Ordinary GBP35,163	100	Investment holding
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	VZI Investment Corp.	U.S.A.	Common stock US$1	100	Wholesaling
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Wilson Fabric Mart (China) Ltd	Hong Kong	Ordinary HK$2,000,000	100	Export trading
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Wonderful World (HK) Limited	Hong Kong	Ordinary HK$2	100	Corporate administration and holding of trademarks
	Wonderful World Overseas Limited	British Virgin Islands	Ordinary US$1	100	Investment holding

NOTES:

(1) Li & Fung (B.V.I.) Limited provides the subsidiaries with promotional and marketing services outside Hong Kong.

(2) Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited/reviewed by PricewaterhouseCoopers amounted to less than 5% of the Group's total net assets.

The above table lists out the principal subsidiaries of the Company as at 31 December 2012 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

41 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
	Principal associated companies				
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, LLC	U.S.A.	Capital contribution US$3,338,253	30	Fireworks distribution
	Marshall Fireworks, Inc.	U.S.A.	Common stock US$10,000	30	Convenience and store
	Upsolut Merchandising GmbH & Co. KG	Germany	EUR5,000	39	Distribution and wholesaling
#	Winco Fireworks International, LLC	U.S.A.	Capital contribution US$9,573,748	30	Wholesaling
#	Winco Fireworks Mississippi, LLC	U.S.A.	Capital contribution US$406,895	30	Wholesaling
#	Winco of Tennessee, LLC	U.S.A.	Capital contribution US$496,659	30	Fireworks wholesaling and retailing

\# *The associated companies are not audited by PricewaterhouseCoopers.*

The above table lists out the principal associated companies of the Company as at 31 December 2012 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

TEN-YEAR FINANCIAL SUMMARY

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000
Turnover	**20,221,806**	20,030,271	15,912,201	13,394,741	14,195,143	11,853,840	8,719,264	7,130,433	6,047,513	5,465,450
Operating profit	**790,703**	879,937	679,318	497,373	390,310	461,545	309,272	241,615	199,492	160,511
Interest income	**20,385**	19,490	13,567	11,636	14,455	26,691	12,627	8,915	5,534	4,920
Interest expenses	**(135,109)**	(128,594)	(98,443)	(47,706)	(61,561)	(64,059)	(18,983)	(2,741)	(1,470)	(1,258)
Share of profit less losses of associated companies	**638**	1,231	1,850	998	794	634	1,359	1,162	4,205	55
Profit before taxation	**676,617**	772,064	596,292	462,301	343,998	424,811	304,275	248,951	207,761	164,228
Taxation	**(54,053)**	(90,660)	(47,525)	(30,798)	(33,269)	(32,379)	(22,011)	(19,391)	(16,699)	(13,324)
Net profit the year	**622,564**	681,404	548,767	431,503	310,729	392,432	282,264	229,560	191,062	150,904
Attributable to:										
Shareholders of the Company	**617,416**	681,229	548,491	431,937	310,505	392,312	282,284	229,523	191,182	152,455
Holders of perpetual capital securities	**4,415**	–	–	–	–	–	–	–	–	–
Non-controlling interests	**733**	175	276	(434)	224	120	(20)	37	(120)	(1,551)
	622,564	681,404	548,767	431,503	310,729	392,432	282,264	229,560	191,062	150,904
Earnings per share (HK cents) *(Note)*										
Basic	**58.1**	65.8	55.9	45.5	34.6	44.8	33.5	27.8	23.2	18.7
equivalent to (US cents)	**7.45**	8.43	7.17	5.83	4.44	5.74	4.30	3.56	2.98	2.40
Dividend per share (HK cents) *(Note)*	**31.0**	53.0	45.0	37.5	28.5	35.5	27.5	22.7	19.1	15.9
equivalent to (US cents)	**3.97**	6.79	5.77	4.81	3.65	4.55	3.53	2.91	2.45	2.04
Special dividend per share (HK cents) *(Note)*	**–**	–	–	–	–	–	-	–	11.4	–
equivalent to (US cents)	**–**	–	–	–	–	–	-	–	1.46	–

CONSOLIDATED BALANCE SHEET

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000
Intangible assets	**7,058,406**	6,525,999	4,882,166	2,333,657	1,872,068	1,458,287	604,252	360,177	167,222	78,570
Property, plant and equipment	**418,624**	325,432	309,186	160,988	164,495	144,872	142,868	121,488	91,667	93,727
Other non-current assets	**158,153**	117,418	124,679	112,356	20,246	27,974	113,166	126,028	128,778	117,869
Current assets	**4,379,969**	3,951,571	4,177,788	2,757,963	2,752,051	2,444,428	1,966,007	1,349,745	1,057,244	895,034
Current liabilities	**3,873,938**	3,664,820	3,317,362	2,227,923	2,288,234	2,095,649	1,658,606	1,264,395	772,589	636,011
Net current assets	**506,031**	286,751	860,426	530,040	463,817	348,779	307,401	85,350	284,655	259,023
	8,141,214	7,255,600	6,176,457	3,137,041	2,520,626	1,979,912	1,167,687	693,043	672,322	549,189
Financed by:										
Share capital	**13,396**	12,987	12,899	12,103	11,648	11,060	10,928	9,412	9,350	9,301
Perpetual capital securities	**504,415**	–	–	–	–	–	–	–	–	–
Reserves	**4,627,116**	3,925,619	3,619,179	2,260,485	1,704,039	1,253,589	1,048,924	583,511	594,424	527,939
Shareholders' funds	**5,144,927**	3,938,606	3,632,078	2,272,588	1,715,687	1,264,649	1,059,852	592,923	603,774	537,240
Other non-current liabilities	**2,996,287**	3,316,994	2,544,379	864,453	804,939	715,263	107,835	100,120	68,548	11,949
	8,141,214	7,255,600	6,176,457	3,137,041	2,520,626	1,979,912	1,167,687	693,043	672,322	549,189

NOTE: Adjusted for the effect of 1-for-10 Bonus Issue in May 2006 and Share Subdivision in May 2011.

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