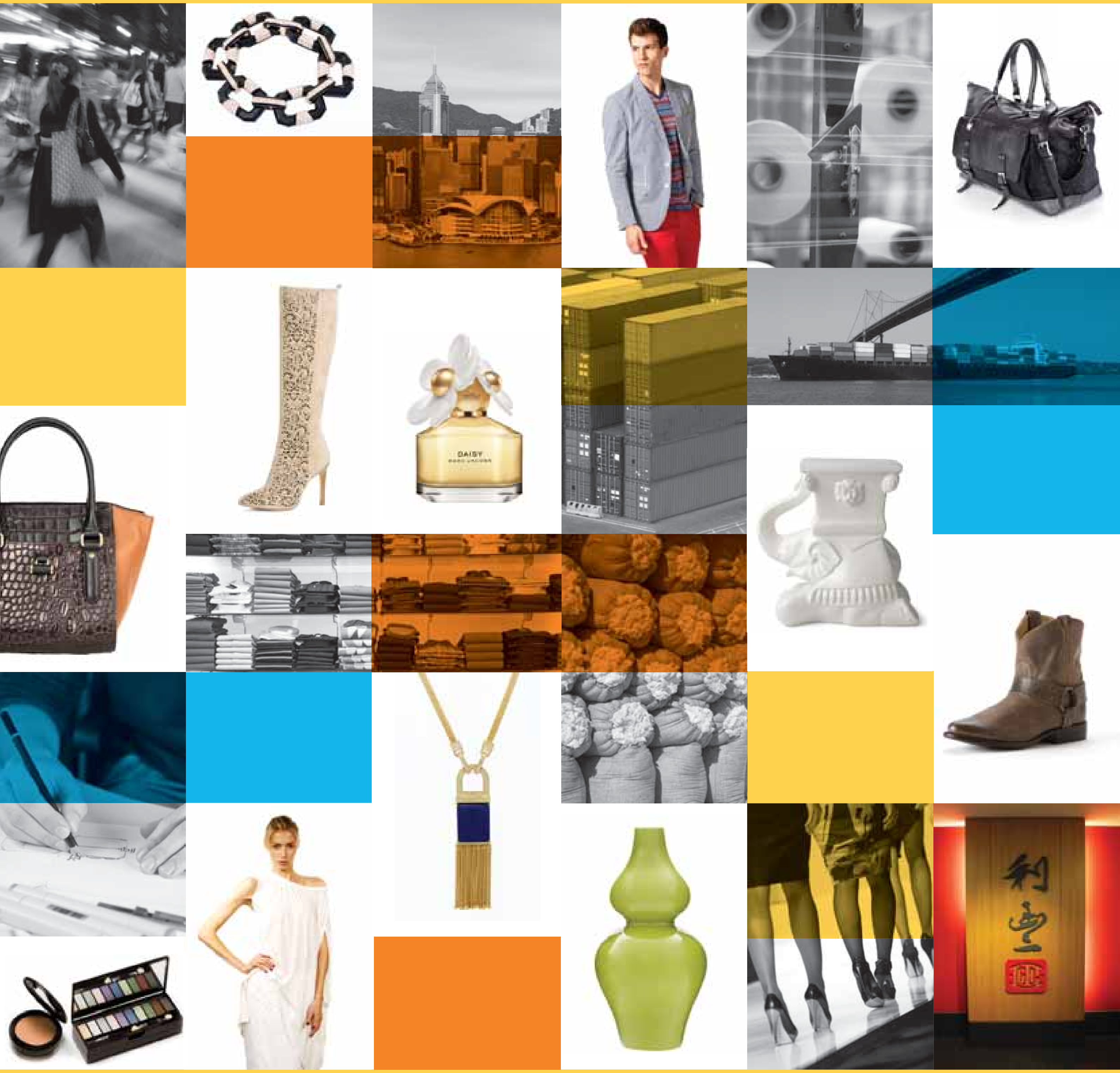
LI & FUNG LIMITED

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

ANNUAL REPORT 2013



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

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*
Margaret LEUNG KO May Yee*

* *Independent Non-executive Directors*

GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

CHIEF FINANCIAL OFFICER

Edward LAM Sung Lai

COMPANY SECRETARY

Terry WAN Mei Chow

AUDITOR

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

PRINCIPAL BANKERS

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

LEGAL ADVISORS

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

REGISTERED OFFICE

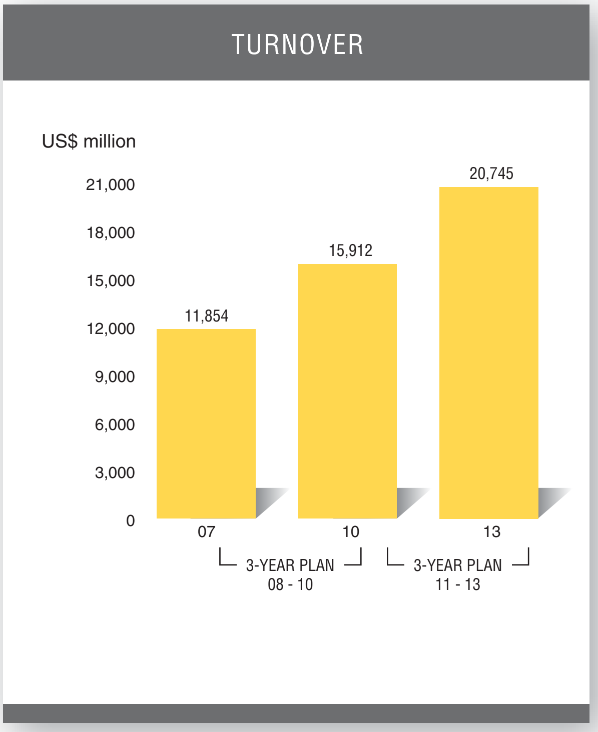
Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

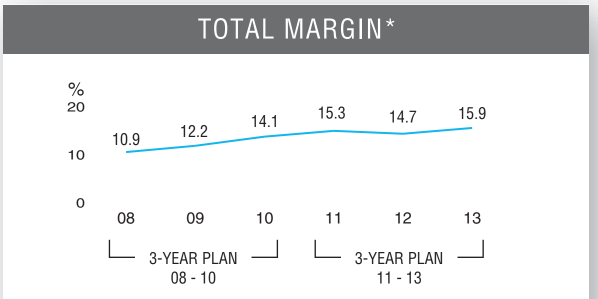
HONG KONG OFFICE

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

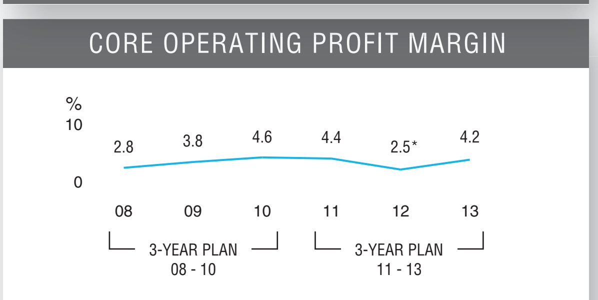
KEY FINANCIAL HIGHLIGHTS

(US$'000)	**2013**	2012	**Change**
Turnover	**20,745,410**	20,221,806	**+3%**
Total Margin	**3,304,038**	2,963,795	**+11%**
As percentage of Turnover	**15.9%**	14.7%	
Core Operating Profit	**870,791**	511,173	**+70%**
As percentage of Turnover	**4.2%**	2.5%	
Profit attributable to shareholders of the Company	**725,337**	617,416	**+17%**
As percentage of Turnover	**3.5%**	3.1%	
Earnings per Share – Basic	**67.7 HK cents**	58.1 HK cents	**+17%**
(equivalent to)	**8.68 US cents**	7.45 US cents	
Dividend per Share			
– Final	**34 HK cents**	16 HK cents	**+113%**
– Full year	**49 HK cents**	31 HK cents	**+58%**
Shareholders' Funds	**5,036,637**	4,622,192	
Net Assets per Share	**US$0.66**	US$0.61	

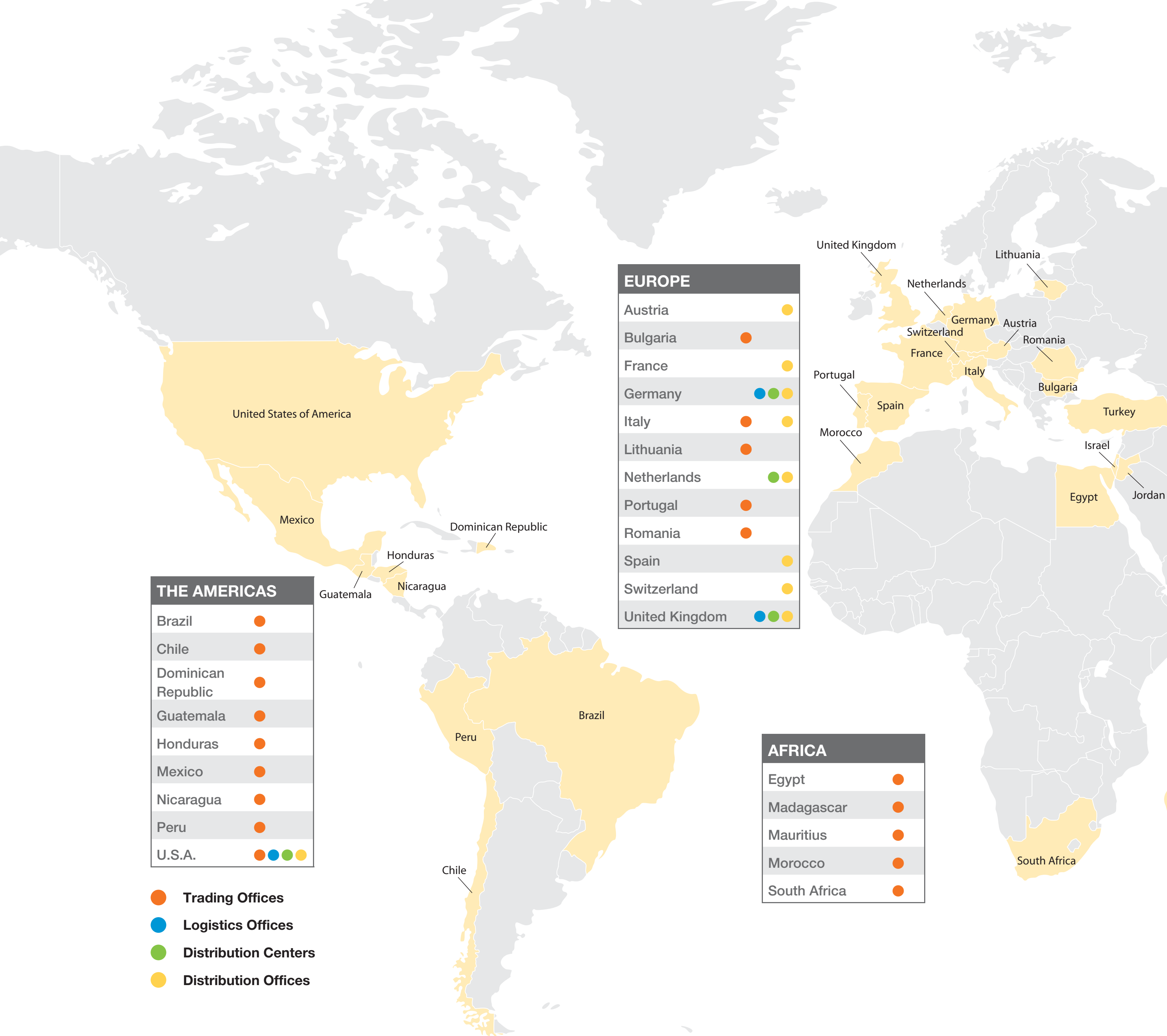




* Gross profit plus other revenues, as percentage of turnover



* 2012 result was mainly impacted by costs of restructuring LF USA's business and reduction in the number of brands distributed in the US

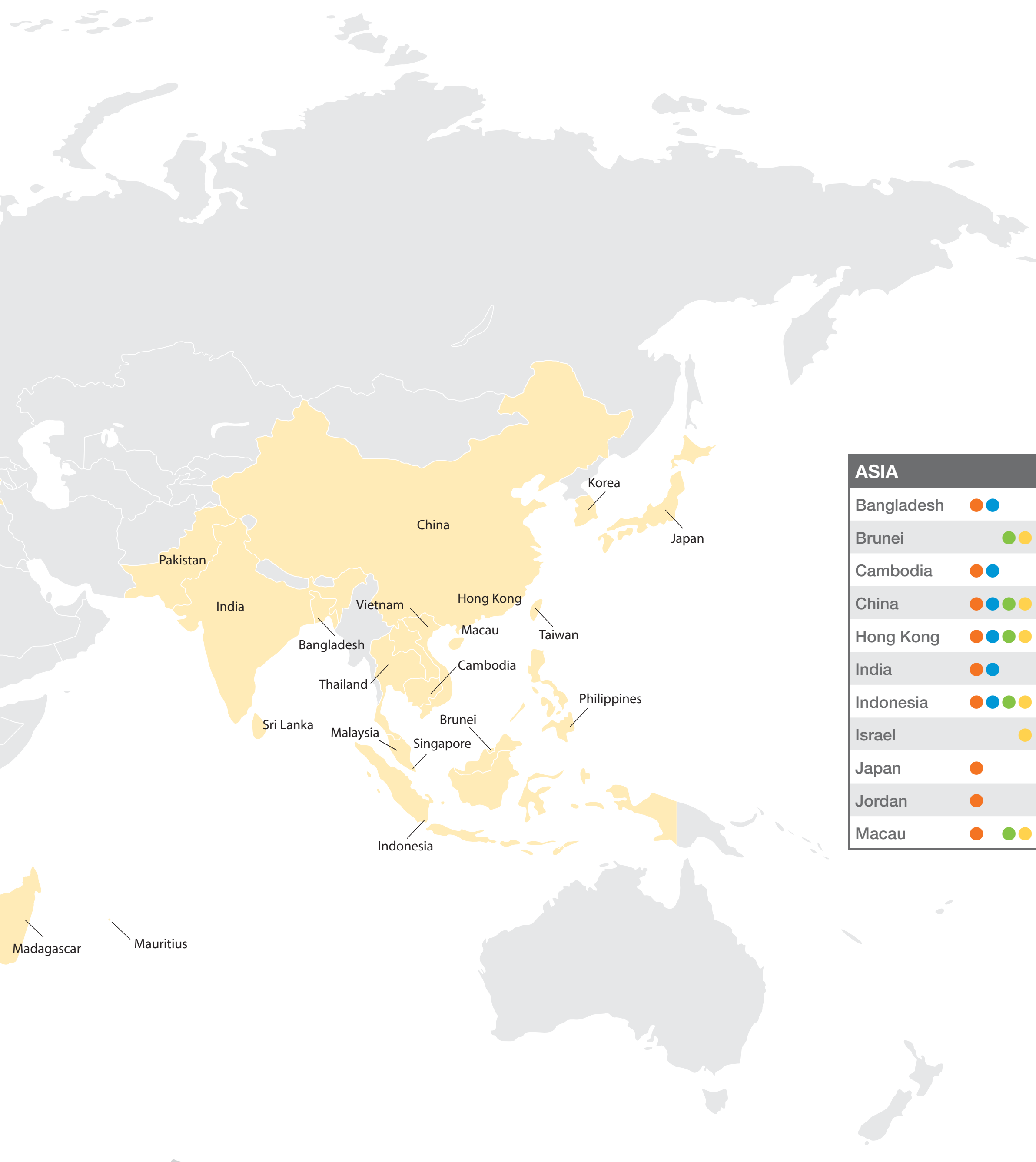


THE AMERICAS	Trading Offices	Logistics Offices	Distribution Centers	Distribution Offices
Brazil	●			
Chile	●			
Dominican Republic	●			
Guatemala	●			
Honduras	●			
Mexico	●			
Nicaragua	●			
Peru	●			
U.S.A.	●	●	●	●

EUROPE	Trading Offices	Logistics Offices	Distribution Centers	Distribution Offices
Austria				●
Bulgaria	●			
France				●
Germany		●	●	●
Italy	●			●
Lithuania	●			
Netherlands			●	●
Portugal	●			
Romania	●			
Spain				●
Switzerland				●
United Kingdom		●	●	●

AFRICA	Trading Offices	Logistics Offices	Distribution Centers	Distribution Offices
Egypt	●			
Madagascar	●			
Mauritius	●			
Morocco	●			
South Africa	●			

- ● Trading Offices (orange)
- ● Logistics Offices (blue)
- ● Distribution Centers (green)
- ● Distribution Offices (yellow)



ASIA				
Bangladesh	●	●		
Brunei			●	●
Cambodia	●	●		
China	●	●	●	●
Hong Kong	●	●	●	●
India	●	●		
Indonesia	●	●	●	●
Israel				●
Japan	●			
Jordan	●			
Macau	●		●	●
Malaysia		●	●	●
Pakistan	●	●	●	
Philippines	●	●	●	●
Singapore	●	●	●	●
Korea	●			
Sri Lanka	●			
Taiwan	●	●	●	●
Thailand	●	●	●	●
Turkey	●			
Vietnam	●	●		

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

The year 2013 is the final year of our Three-Year Plan that covered the period 2011 to 2013. This Three-Year Plan has also been one of the most challenging in our company's long history.

Operationally, we achieved an all-time high in 2011, with a core operating profit of US$882 million. Regrettably, with macro-economic headwinds and internal restructuring costs in the United States that were higher than anticipated, we had to issue a profit warning for 2012. Happily, though, I can report that in 2013 we returned to the operating levels of 2011. We are back on track.

As we look forward to the next Three-Year Plan, covering the years 2014 to 2016, we see three major trends impacting our business in ways that bring both new challenges and new opportunities. The first has to do with changes in China, the second with tragedies in apparel factories in Bangladesh, and the third is the impact of the Internet on our customers and, through them, on us.

CHINA

As China changes gear and shift away from an over-reliance on exports to stimulating domestic consumption, I believe the impact on the global economy will be as dramatic as when China re-opened its doors in 1979. When China rejoined the world in 1979 and started to manufacture for exports the types of consumer goods that underlie Li & Fung's trading business, China added a billion workers to the global workforce. The resultant global impact as China became the "World's Factory" is well known. Now, thirty years later, as China starts along the road of eventually becoming the "World's Largest Consumer Market", it will be adding an additional billion consumers to the global market, many of them already middle class.

I predict that the impact of this shift will be as dramatic for the world in the next 30 years as China's economic opening was in the past 30 years.

In the Three-Year Plan just ended, we had already prepared for the opening up of China's consumer market by creating the LF Asia operating groups to sell to China and Asia in addition to just sourcing from them. In our new Three-Year Plan, we must now contend with the impact of the method by which China plans to boost domestic consumption i.e. by dramatically raising its minimum wage.

In its 12th Five-Year Plan (2011 – 2015), China announced that it plans to increase its average minimum wage by about 13% a year, every year in the five-year period. In other words, wages in China may rise 80% over these 5 years. This policy move, which is unprecedented by any government anywhere in the world, will dramatically affect traditional export manufacturing activities in both the Pearl and Yangtze River Deltas. Dislocation and re-location of this type of labor-intensive manufacturing to peripheral Chinese provinces – and out of China, to other developing countries – is inevitable.

With our large and unrivaled sourcing network covering over 40 countries, Li & Fung is in poll position to help customers and suppliers cope with the huge implications of this shift.

BANGLADESH

The Tazreen factory fire in 2012 and the collapse of Rana Plaza in 2013 in which, tragically, so many lives were lost, have focused the world on factory and worker safety and galvanized the global apparel industry to work together to bring about lasting change for the better. As a company, we have resolved to do our utmost to ensure that such tragedies are not repeated. The bar has now been raised, and it is our duty to help and ensure that our factory partners reach or exceed the tighter safety and compliance standards.

We will devote considerable manpower and resources on the ground to upgrade safety and sustainability within our vendor base, not just in Bangladesh but wherever we source.

Li & Fung's vendor compliance and sustainability stream now reports directly to me.

THE INTERNET

Perhaps the biggest challenge to our customers – be they retailers or brands – is how to succeed in the fast-growing world of e-commerce. The impact of more and more consumers buying on-line has spurred most traditional brick-and-mortar retailers to add an on-line dimension to their business, giving people more channels to buy products. This 'Omni Channel' approach looks set to be the dominant business model for many of our customers.

We on the sourcing side are, in turn, challenged to serve our customers' evolving needs. We must anticipate greater fluctuations in demand, respond even faster, and handle smaller orders with more frequent repeats. We must also take a lead in fostering more cooperative relationships between vendors and customers to ensure that our supply chain react efficiently and seamlessly to the increased speed and demands of the Internet world.

Factoring such challenges into our new Three-Year Plan, we announced in January a Vendor Support Services initiative that will radically change the way we deal with our 15,000-strong vendor base. We will provide services that help vendors cope with the myriad of new needs and operational complexities arising from the mega trends mentioned above – namely, the shift in production base, increasingly higher compliance standards and the need for faster, for more flexible responses in the Internet age. Through the provision of these services, we hope systematically to upgrade our supplier base, which in turn will benefit all our customers.

A second key aspect of our new Three-Year Plan is an emphasis on organic growth. The Company has made many acquisitions in recent years and these have expanded the scope of our product offering and geographical capabilities. Over the next three years, we look forward to building and growing our business organically on the strength of these expanded capabilities. Our core Trading business is in a particularly strong position to grow organically by taking advantage of the new opportunities brought on by the trends outlined above. The Vendor Support Services will further add to revenue growth in our core business. The Logistics business has grown rapidly in the past Three-Year Plan and the recently announced acquisition of China Container Line will accelerate this growth in the 2014-2016 plan.

Another important feature of all Three-Year Plans at Li & Fung is that we adopt a zero-based approach to re-examining all aspects of our organization and business. As part of this process, on fresh scrutiny of our Distribution Network, it became apparent that we had developed two distinct businesses in this business: one in the sourcing private label goods for customers on a landed, in-country basis; the other in the licensing, design and marketing of brands. These businesses require different skills and management focus. The private label business depends in large part on sourcing skills, similar to those in our core Trading business. The brands business, meanwhile, requires a much higher level of design and brand marketing and nurturing skills we have learned and cultivated over the past six years in the USA and Europe.

Hence, in the new Three-Year Plan, we will regroup the private label business back into our trading network and provide our customers with a repertoire of multi-channel sourcing services. A customer using our sourcing services will thus have multiple options, whether buying on an FOB (Free on Board) country-of-origin basis, a C&F (Cost & Freight) or CIF (Cost Insurance Freight) basis, or buying in their own country on a LDP (landed duty paid) basis. This increased flexibility in working with our customers in whatever way suits them best will further enhance our position as the world's premier sourcing company.

The brands business, which we have named the Global Brands Group, will be managed and run separately. This operating group was a US$3.3 billion business in 2013 in terms of turnover, with more than 350 licensed and controlled brands and over 3,000 employees of which some 700 are design staff.

The Company is preparing an application to the Hong Kong Stock Exchange for a possible separate listing of the Global Brands Group within 2014.

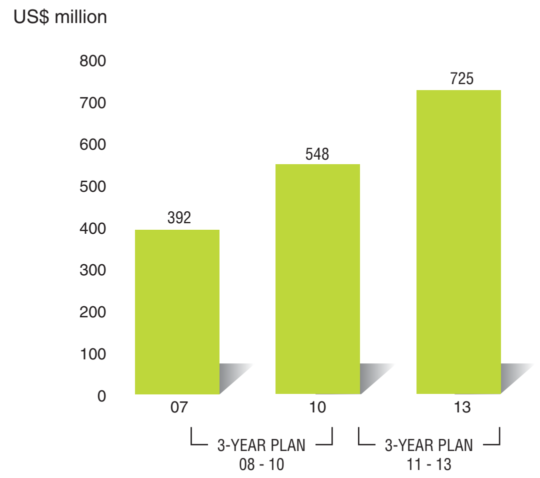
In conclusion, in 2013 we succeeded in returning to the operating profit levels of 2011, as we promised to do after the challenges of 2012. I would like to thank all my colleagues for their hard work and dedication in making this happen. I also wish to express my deep appreciation to the Board of Directors for their insightful guidance and support.

I am confident we are now poised to grow significantly over the next three years in all three of our reorganized business networks. I look forward to embarking on this exciting new journey with all our stakeholders.

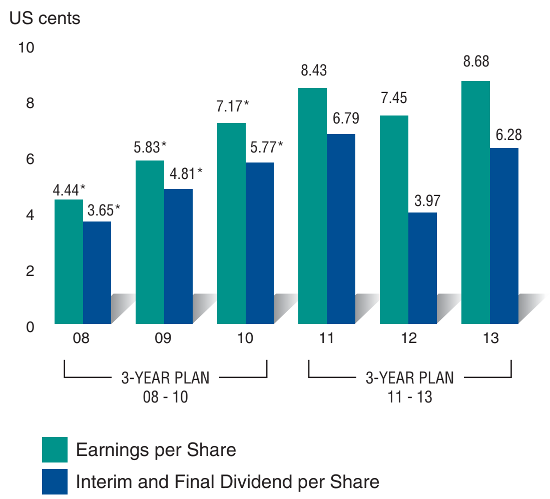
William FUNG Kwok Lun
Group Chairman

Hong Kong, 20 March 2014

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

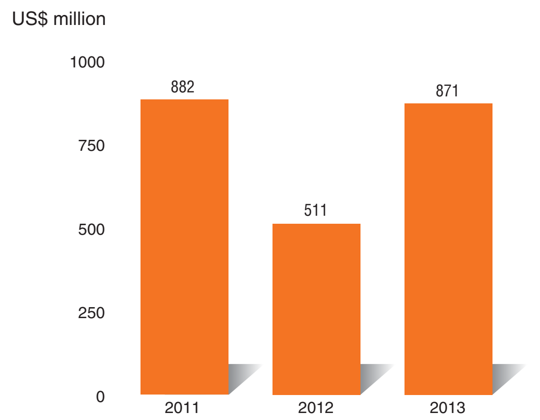


EARNINGS PER SHARE | DIVIDENDS PER SHARE

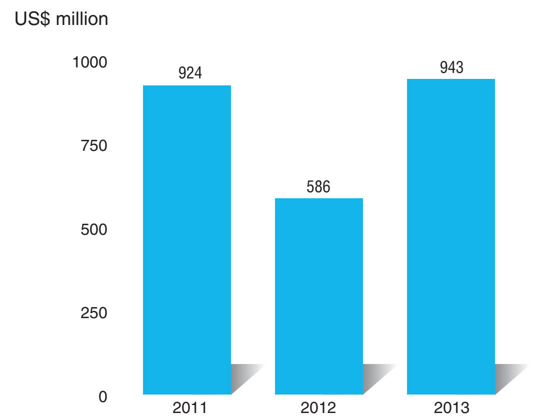


* Adjusted for the effect of Share Subdivision in May 2011

CORE OPERATING PROFIT



OPERATING CASH FLOW



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, Stephen Lister, Henry Chan, Dow Famulak, Edward Lam, Jason Rabin, Marc Compagnon, Joseph Phi, Richard Darling and Emily Mak

Front Row (from left and right):
Lale Kesebi, Victor Fung, William Fung, Bruce Rockowitz, Leung Wai Ping and Spencer Fung

RESULTS OVERVIEW

2013 marked an important milestone for the Group, as we emerged stronger following a challenging 2012, concluded our current Three-Year Plan with solid financial results, and established a firm foundation for our next Three-Year Plan (2014–2016). In 2013, the Group successfully returned our operating financial performance to the 2011 levels, which was a historic high for us. Our three Business Networks of Trading, Logistics, and Distribution have strengthened their respective positions with enhanced capabilities in design, expanded product offerings, and a strengthened foothold in Asia to capture the increasing Asia consumer spend. The Group continued to benefit from tangible synergies realized by leveraging our scale, customer relationships, extensive vendor network, and product and service expertise across all our Networks.

Our Trading Network achieved solid results in 2013 and continued our dominance in this core business. Our Logistics Network cemented its position as a leading in-country logistics services provider in Asia, focusing on its distinct verticals with increased international freight forwarding capabilities. In our Distribution Network, after a year of integration and restructuring, LF USA has recovered and produced positive results through margin expansion and cost control. The new LF USA management team focused considerable effort on rightsizing the LF USA business, optimizing the existing brand portfolios, centralizing merchandizing planning, and completing back-office integration. Despite discontinuing certain brands in the previous year, LF USA has retained and developed an attractive portfolio of brands, continued to grow its overall business year over year, and is on track to recover to its historic margin level.

As we look ahead to our new Three-Year Plan, the underlying strategic objectives will be gaining market share, accelerating organic growth, improving operating efficiency and, where appropriate, making strategic acquisitions to enhance our overall market position.

	2013	2012	**Change**	
	US$mm	US$mm	US$mm	%
Turnover	**20,745.4**	20,221.8	523.6	*3%*
Total margin	**3,304.0**	2,963.8	340.2	*11%*
	15.9%	*14.7%*		
Core operating profit	**870.8**	511.2	359.6	*70%*
Net profit after tax	**755.3**	622.6	132.7	*21%*
Profit attributable to shareholders	**725.3**	617.4	107.9	*17%*

With respect to the Group's turnover for the year ended 31 December 2013, the Trading Network remained a stable core business, the Logistics Network continued its growth momentum, and the Distribution Network recorded growth in Europe, Asia and USA. For the full year, the Group's turnover increased by 3% to US$20,745 million. As discussed previously, the Group's business has been increasingly skewed towards the second half of the year, mainly due to the increased scale of our wholesale distribution business, as well as the seasonality effect with back-to-school sales and the holiday season. As a result, while our first half turnover remained flat as compared to last year, the Group's total turnover in the second half of 2013 increased by 5% year-on-year. We expect the proportion of sales and earnings recorded in the second half of the year to continue to increase in the future as customers want shorter lead times and shipments closer to the peak year-end retail season.

- Core operating profit increased by 70% to US$871 million, and core operating profit margin increased from 2.5% to 4.2%

- Total margin increased by 11% to US$3,304 million, increasing as a percentage of turnover from 14.7% to 15.9%

- Profit attributable to shareholders increased by 17% to US$725 million and included a non-cash gain of US$187 million on the write-back of contingent considerations this year. Excluding such non-cash gains in both years, profit attributable to shareholders increased by 84%

Core operating profit posted a strong recovery during the year, largely due to the positive recovery from LF USA's restructuring, as well as the solid performance of our European wholesale distribution business. Despite additional operating costs incurred as a result of recent acquisitions from building up our LF Asia and LF Logistics businesses to support on-going growth, the Group continued to focus on improving operating efficiency and managed to reduce total operating costs through continued efforts in cost control.

Profit attributable to shareholders increased by 17%. This included a remeasurement gain adjustment on contingent considerations of US$187 million on certain previous acquisitions made before 2013, as compared to a US$326 million adjustment in 2012. The adjustment was due to the remeasurement of contingent consideration payable as at 31 December 2013. In addition, the Group profit attributable to shareholders included the full impact of distributions to holders of perpetual capital securities in 2013.

Overall, our business continued to show resilience amidst an uncertain macroeconomic environment across the regions in which we operate. We continued to gain new customers, expanded our product offerings and made selected strategic investments in certain areas to enhance our competitive advantages. Our investments in Logistics and Asia are starting to bear fruit. The increased scale has allowed us to register strong organic growth and gain market share in a very fragmented Asia market. On the global sourcing front, an increasing number of factories are shifting to new, lower cost production bases. This shift, combined with a stronger industry focus on worker safety, vendor compliance, quality control and sustainability among industry players, have led us to establish a dedicated vendor support services business unit. This business unit will extend its range of services to further support the needs of our vendor and customer base, as well as to raise standards and improve operating efficiency in the global supply chain. We believe our asset-light business model, extensive global network, and high quality supply-chain standards will continue to underscore our leadership in the global sourcing arena.

THREE NETWORKS SEGMENTATION

The Group's business is organized according to three Business Networks: Trading, Logistics and Distribution. The Trading Network provides sourcing services to retailers, brand owners and wholesalers to support their brands on an agency and principal basis. The Distribution Network offers design and products to retailers on a wholesale basis. The Logistics Network is a leading player for in-country logistics in distinct verticals across Greater China and South East Asia interacts between the Trading and Distribution Networks to provide comprehensive logistics solutions and international freight forwarding services for our customers.

TRADING NETWORK

	2013	2012	**Change**	
	US$mm	US$mm	US$mm	%
Turnover	**16,308.0**	16,130.9	177.1	*1%*
Total margin	**1,497.6**	1,450.8	46.8	*3%*
	9.2%	*9.0%*		
Operating costs	**(958.2)**	(924.6)	(33.6)	*4%*
Core operating profit	**539.4**	526.2	13.2	*3%*

The **Trading Network** is comprised of two businesses, Agency and Principal Trading, with five operating groups, LF Sourcing, DSG, LF Fashion, LF Products and LF Beauty. The Agency business, which encompasses LF Sourcing and DSG operates on a commission margin basis where the Group leverages its global scale and capabilities to support the sourcing needs of retailers and brands, as well as to manage their global supply chain on an outsourced basis. The Principal Trading business, which spans LF Fashion, LF Products, and LF Beauty specializes in specific product categories and supplies complete lines of products to retailers and brands on a principal-to-principal basis.

The Trading Network accounted for the most significant part of the Group's turnover and 62% of core operating profit for the year ended 31 December 2013. Turnover increased by 1% from last year. From a geographical perspective, the US represented approximately 70% of the Trading Network's total turnover, with Europe and Rest of World representing 17% and 13%, respectively. It is noteworthy that Canada and Australia were particularly strong international markets for the Trading Network during 2013. In the US, although total turnover remained at largely the same level as last year, the furniture business within LF Products benefitted from the start of a US housing recovery. Meanwhile, total Trading turnover for Europe decreased by 4% as compared to prior year, offset by a 17% increase in turnover in other regions such as Australasia, and Central and Latin America. While overall weakness in Europe impacted the LF Fashion business for the full year, there was some incremental improvement in the second half from Europe. Pricing was flat compared to last year and unit volumes also remained at a similar level. The Group continued to gain new customers during 2013 and is engaged in on-going negotiations with a large number of potential customers on the possibility of outsourcing activities. We will continue to look for opportunities to gain market share via organic growth and selective acquisitions.

Total margin for the Trading Network increased from 9.0% to 9.2%, which was mainly achieved through LF Sourcing maintaining a stable commission rate and increased scale in LF Products and LF Beauty which enabled these operating units to achieve higher margins from offering value-added services, as well as high quality design and products to customers. Moreover, the acquisition of Whalen Furniture in 2013 further expanded the furniture portfolio within LF Products and provides a higher margin furniture category that can be distributed to multiple channels. Operating costs increased year-on-year by 4%, from US$925 million to US$958 million, mainly due to new acquisitions, which was offset by cost reductions implemented across the five operating groups in the Trading Network. Core operating profit of the Trading Network was US$539 million, an increase of 3% compared to last year. The increase was attributed mainly to the stable performance of LF Sourcing and the positive operating performance of DSG, LF Products and LF Beauty, offset by the challenges faced by LF Fashion due to its heavy focus on European customers.

The Group maintains a global sourcing network covering more than 40 economies, which allows the flexibility of moving orders from one production country to another to handle capacity constraints and satisfy customers' needs. Within this global network, the top three sourcing countries for the Group remained China, Vietnam, and Bangladesh. China held its position as the Group's largest sourcing country with softgoods and hardgoods accounting for 49% and 51%, respectively, while Vietnam and Bangladesh continued to be the second- and third-largest sourcing countries. Both Vietnam and Bangladesh are softgoods-centric, with approximately 95% being apparel.

LOGISTICS NETWORK

	2013	2012	Change	
	US$mm	US$mm	US$mm	%
Turnover	**526.3**	403.7	122.6	*30%*
Total margin	**194.5**	159.8	34.7	*22%*
Operating costs	**(158.7)**	(135.9)	(22.8)	*17%*
Core operating profit	**35.8**	23.9	11.9	*50%*
	6.8%	*5.9%*		

The **Logistics Network** continued to demonstrate robust growth with a 30% increase in turnover and a 50% increase in core operating profit over 2012. This strong set of results is mainly attributable to organic gain through extending existing partnerships with customers, winning new business and cross-selling across Networks. Our strategy at LF Logistics continues to be Asia-focused for its in-country logistics business, specializing in footwear and apparel, consumer products, as well as food and beverage verticals. This was supplemented by its international freight forwarding business for cross-border services. For the year ended 31 December 2013, over 90% of the turnover was in the Asian region.

In March 2014, LF Logistics signed the sale & purchase agreement to acquire China Container Line, a leading sea-freight forwarder in China, handling over 500,000 TEUs, to further expand its freight forwarding capabilities. This transaction will enable our freight forwarding business to further accelerate its growth, thereby providing our customers with an end-to-end services offering.

Through productivity gains and tight cost controls, LF Logistics was able to achieve operating leverage while maintaining organic growth. As a result, the core operating profit of the Logistics Network increased from US$24 million to US$36 million in 2013, with core operating profit margin increasing from 5.9% to 6.8%.

DISTRIBUTION NETWORK

	2013	2012	Change	
	US$mm	US$mm	US$mm	%
Turnover	**6,707.8**	6,435.9	271.9	*4%*
Total margin	**1,611.9**	1,353.2	258.7	*19%*
	24.0%	*21.0%*		
Operating costs	**(1,316.4)**	(1,392.1)	75.7	*–5%*
Core operating profit	**295.5**	(38.9)	334.4	*NA*

The **Distribution Network** is comprised of four operating groups, LF USA, LF Europe, LF Asia (FHBC) and LF Asia (F&H), which cover all major countries across the three continents. The businesses in the Distribution Network operate as wholesale distributors and utilize world class design, brand management, and sourcing to deliver differentiated products to customers.

LF Europe and LF Asia continued to perform well in 2013 while LF USA demonstrated a successful turnaround, and is on track to recover from its restructuring and the discontinuation of certain brands from its portfolio in 2012. Overall, the Distribution Network increased its turnover by 4% to US$6,708 million, while total margin increased by 19% to US$1,612 million and total margin percentage increased from 21.0% to 24.0% as compared to last year. The increase in total margin percentage was due to a recovery of margins at LF USA and an improved product portfolio mix in all three operating regions.

Operating costs decreased by 5% despite investments in LF Asia and new acquisitions made by both LF Europe and LF Asia. Cost reduction was a main focus at LF USA with operating costs decreasing by 14% over last year. As a result, the Distribution Network's core operating profit was US$296 million with a core operating profit margin of 4.4%, as compared to negative US$39 million in 2012.

LF Europe accounted for 24% of the Distribution Network's turnover with the UK and Germany being key markets. Despite the uncertain macroeconomic environment in Europe, the Group's LF Europe wholesale distribution business performed well, with an approximate 13% increase in turnover and 33% increase in total margin as compared to 2012. LF Europe's financial performance benefitted from a number of factors including positive impact from acquisitions made in 2012, market share gains achieved through acquiring new customers, enhanced product and service offerings, and improved performance of our key customers in UK and Germany.

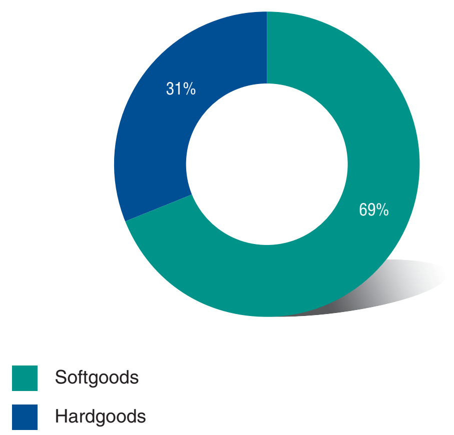
LF Asia accounted for 24% of the Distribution Network's turnover and was successful in maintaining its growth momentum with margin improvement during the period. Compared to 2012, LF Asia achieved a 2% increase in turnover in 2013. The turnover was affected by LF Asia (FHBC)'s reduced exposure to low margin products, as well as LF Asia (F&H)'s sale of the Roots retail business in 2012 and the Roots licensing rights in 2013. Total margin increased by 13% year-on-year, which was attributable to the further build-up of LF Asia as well as a number of small roll-up acquisitions. Since the Group's interim results, LF Asia (F&H) further broadened its geographical coverage, as well as expanded the brand portfolio of its licensing business by adding new licenses and through its acquisition of New Concept in August 2013, its joint venture with Iconix in September 2013, and its acquisition of the distributor of Jeep Kids apparel in October 2013. While we continued to build out our Asia wholesale distribution platform with key retail customer relationships, the Group proceeded cautiously with its region-wide expansion plan in 2013 given the recent slowdown in the China market. Management remains optimistic about the long-term business outlook in Asia.

LF USA continued to be our biggest platform within the Distribution Network, accounting for approximately 52% of total turnover in 2013. Our core strengths at LF USA include our attractive brand portfolio in both licensed and controlled brands, our strengths in design and brand management, and our strong customer relationships with top US retailers. The turnaround of LF USA remained our core focus in 2013 and our efforts are generating positive results. The total turnover at LF USA increased by 2% compared to last year in our brand portfolio despite discontinuing certain brands at the end of 2012. Our brand Frye continued to garner favorable consumer recognition and grew strongly across all distribution channels. Our focus on higher margin products and enhancing our brand portfolio has lifted total margin percentage by 3.4%. This focus, along with implementing measures to reduce operating cost has enabled LF USA's core operating profit margin to recover significantly such that it is on track to return to its 2011 level.

SOFTGOODS, HARDGOODS SEGMENTATION

In 2013, softgoods and hardgoods accounted for 69% and 31% of turnover in our Trading Network, and 46% and 54% in our Distribution Network, respectively.

TRADING NETWORK
– SOFTGOODS / HARDGOODS



Softgoods' overall turnover was flat compared to last year. This was mainly due to the soft consumer market in Europe, which impacted both LF Sourcing and LF Fashion's European business within the Trading Network. This impact, however, was offset by the growth in turnover achieved in our wholesale distribution business in LF Europe within the Distribution Network.

Hardgoods' overall turnover grew by 7%, compared to 2012, resulting from both organic growth and acquisitions. The growth of the hardgoods segment, in particular home and furniture products, benefitted from the start of a US housing recovery in 2013.

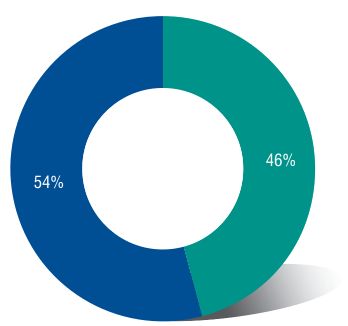
GEOGRAPHICAL SEGMENTATION

Geographically, the **US** continued to be the Group's key export market, representing 62% of total turnover compared to 63% in 2012. The slight decline in percentage of total turnover reflected an increasing diversification of the customer base in Asia and other parts of the world other than the US and Europe.

Europe accounted for approximately 19% of turnover, compared to 19% in 2012. In order to shorten lead times, customers in Europe continued to buy more from wholesalers, and less from agents and suppliers, a trend which further advanced LF Europe's wholesale business and enabled the Distribution Network to gain market share in the UK and Germany. On the other hand, the LF Fashion business within the Trading Network was negatively impacted by the overall market sentiment in Europe. Overall, we have seen incremental improvement from the region in the second half of 2013.

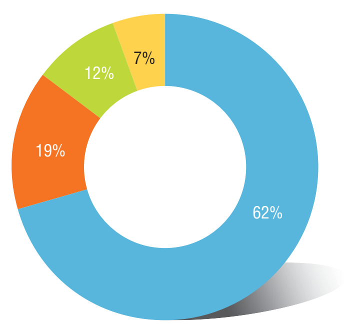
Asia accounted for 12% of total turnover, relatively the same percentage of turnover as in 2012. However, total turnover in Asia increased by 5% as compared to last year, of which **China** alone accounted for 7% against 6% last year. The **Rest of Asia** accounted for 5%, compared to 6% in 2012. This reflected the continuing expansion of LF Asia and LF Logistics across China.

DISTRIBUTION NETWORK – SOFTGOODS / HARDGOODS



Softgoods
Hardgoods

GEOGRAPHICAL SEGMENTATION



USA
Europe
Asia
Rest of World

Turnover in **Canada**, **Australasia**, **Central & Latin America**, and **South Africa & the Middle East** collectively accounted for 7% of total turnover against 6% last year. The increase was largely driven by strong growth in **Canada** and **Australia**.

ACQUISITIONS AND JOINT VENTURE

During 2013, the Group supplemented its organic growth strategy with selected acquisitions and a joint venture to enhance its product and service offerings, expand geographical reach, and further develop its brand and licensing portfolio. The Group completed ten acquisitions in 2013, with an aggregate consideration of approximately US$541 million and annualized turnover of US$557 million. The total consideration for these acquisitions included initial payments of approximately US$202 million, and earn-out and earn-up contingent consideration payables of US$339 million. For accounting purposes, the annualized amortization of intangibles for all acquisitions completed in 2013 approximately US$7 million. Among the acquisitions in 2013, the most significant acquisition was Whalen Furniture in May 2013. In addition to acquisitions, the Group also completed one joint venture with Iconix in September 2013. Further, in January, 2014, the Group acquired The Licensing Company Limited, a global licensing agent in Europe with a portfolio of licensed brands to expand our brand management capability.

ENHANCING PRODUCT/SERVICE OFFERINGS AND EXPERTISE

Name	Business	Strategic Rationale
Whalen Furniture *(May 2013 – Trading Network)*	• A leading furniture and furnishing trading company servicing U.S. mass retailers	• Broadening the product offering and complementing the existing furniture business at LF Products within the Trading Network
Chuan Jui Group *(April 2013 – Logistics Network)*	• A transportation company in Taiwan focusing on hypermarket, consumer and retail channels	• Strengthening the Group's logistics platform in Taiwan with distribution center and local transportation capability
The Licensing Company Limited *(January 2014 – Distribution Network)*	• A global brand management and licensing agent based in UK with a portfolio of licensed brands	• Expanding brand management and license extension capability
China Container Line *(March 2014 – Logistics Network)*	• A sea freight forwarding company handling over 500,000 TEUs per year	• Expanding international freight forwarding capability

DISTRIBUTING BRANDS TO ASIAN MARKETS

Name	Business	Strategic Rationale
New Concept *(August 2013 – Distribution Network)*	• A high-end soft home company with nationwide distribution in China	• Strengthening LF Asia (F&H)'s product offerings in the soft home category and its distribution platform
Iconix SE Asia JV *(September 2013 – Distribution Network)*	• A joint venture with Iconix Brand Group to distribute the company's fashion and home brands in South East Asia	• Broadening our fashion and home brand portfolio and leveraging LF Asia (F&H)'s distribution platform
Jiangsu Soho (Jeep Kids) *(October 2013 – Distribution Network)*	• A licensee and distributor of Jeep Kids brand in China	• Broadening our children wear portfolio and complementing LF Asia (F&H)'s distribution platform

EXPANDING CHARACTERS LICENSE PLATFORM

Name	Business	Strategic Rationale
Sicem *(November 2013 – Distribution Network)*	• A leading licensing company specializing in character licenses in Italy	• Strengthening LF Europe's character license platform with new distribution in Italy
R-Tsion (Scemama) *(November 2013 – Distribution Network)*	• The exclusive sales agent for TV Mania in France	• Strengthening LF Europe's character license platform with new distribution in France

EXPANDING GLOBAL BRAND PORTFOLIO

Name	Business	Strategic Rationale
Marvin Krasnow Enterprises Ltd (Aquatalia) *(December 2013 – Distribution Network)*	• A woman's footwear company based in Canada specializing in weatherproof, stain resistant technology in Italian leather and suede	• Strengthening LF USA's footwear business with specialized technology and expanding distribution in Canada

BROADENING GEOGRAPHICAL REACH

Name	Business	Strategic Rationale
Four Star Group *(February 2013 – Distribution Network)*	• A leading pharmaceutical and medical device distributor in Macau	• Adding considerable scale to the distribution business at LF Asia (FHBC) in Macau
Group A Limited *(April 2013 – Trading Network)*	• A U.K.-based point-of-sale business, operating primarily in the beauty sector	• Strengthening the point-of-sale footprint in Europe for the beauty business
RM Enterprises Group *(June 2013 – Distribution Network)*	• A leading licensing agency for the development and promotion of character licensing in Greater China, South Korea, Japan and South East Asia	• Consolidating our global character licensing distribution platform with immediate access to Greater China, South Korea, Japan and various other territories via the wide range of brand characters in the portfolio

ADJUSTMENTS TO PURCHASE CONSIDERATION PAYABLES

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

As at 31 December 2013, the Group had outstanding contingent consideration payables of US$1,398 million, of which US$694 million was primarily earn-out and US$704 million was earn-up. 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. Earn-out payments are generally payable within three to four years whereas earn-up payments have a higher performance target threshold and are typically payable in a period of up to five to six years upon completion of a transaction.

While many of its acquired businesses remain profitable and are growing, the Group may still be required to make a downward fair value adjustment to certain consideration payable should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale & purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and is 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, especially if the high performance thresholds of earn-ups are not reach.

The Group conducted a detailed review of all the transactions entitled to contingent consideration payments in the form of earn-out or earn-up, and identified five transactions which required adjustment to the fair value of consideration payable, resulting in a corresponding remeasurement gain. The total remeasurement gain of US$187 million for 2013, as compared to US$326 million in 2012, 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. Similar to the remeasurement gain in 2012, the majority of the adjustment was related to the earn-up portion of the transactions, totaling US$145 million. The Group will continue to perform regular reviews of 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 the assessment of the potential adjustment of consideration payables, which is formula-driven and based on predetermined thresholds during a specific time frame, the goodwill impairment test is conducted based on an assessment of the long-term prospects of the acquired businesses. 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.

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 under the current operating structure, the Group has determined that there is no goodwill impairment as at 31 December 2013, 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.

THE NEW THREE-YEAR PLAN (2014-2016)

As we prepare for the new Three-Year Plan, we reflected on our experience over the last three years in navigating through an uncertain and challenging macro environment, internal restructuring, as well as the evolving changes in our industry. In developing this new Plan, we adopted the same approach as in previous Three-Year Plans with establishing a zero base from which to adapt our business model while reflecting and anticipating the future operating and competitive environment. Over the past few years, we firmly established the three business Network model of Trading, Logistics, and Distribution, allowing us to better support our customers and capture a higher market share in the consumer goods supply chain. We have enhanced our design capabilities and ability to manage a nimble supply chain, and also developed a multi-channel sourcing platform to better serve our customers. We also enhanced our product offerings in home furniture and beauty products, optimized our brand portfolio, and gained a stronger foothold in Asia to capture the increasing Asia consumer spend.

In addition to building on those strengths, the structure of our new Three-Year Plan is designed to address several key global themes impacting our industry:

- The deflationary era in China has come to an end, driven by changes in the wage and macroeconomic policies, which means that in the long run, prices are trending upwards. This has accelerated the movement of factories to inland China and to lower cost production countries. The impact of this ensuing shift in the supply chain will take time to play out but it will require that new trusted partners and factories will be needed for our retail and brand customers.

- Due to recent tragedies in Bangladesh, there will be intensified focus on worker safety and factory compliance globally as well as increased demand for high quality, transparent and ethical sourcing.

- The retail industry landscape has changed rapidly. Information technology and social media have ushered in a new wave of consumer behavior by allowing consumers to discover products, engage brands, customize features, and make purchases in different ways than in the past. The increased competition from e-commerce is a major challenge for many of our customers most of whom rely on brick-and-mortar channels. As a result, fast response time and multi-channel supply chain management have become critical success factors for our customers.

Our new Three-Year Plan is structured around Li & Fung's competitive strengths, and is designed to leverage the Group's existing platform and adapt the business model to address the above key global themes impacting our industry, as well as to meet the ever-changing market.

Focus on Organic Growth Across all Areas of the Business: After expanding our global reach, enhancing our range of product offerings, and strengthening key customer relationships in the last three years, the Group is poised to accelerate organic growth among the three interconnected Networks. Our Trading Network has solidified its position as a world leader in multi-channel sourcing, providing good value and high quality products to customers regardless of their buying process and product categories through either agency or principal trading business model. Both the brand owners and retail customers with private brands will continue to need sourcing partners to supply their own brands. Our organic growth strategy is to gain market share from existing customers as they develop and grow their brands, as well as to expand new channels, gain new customers, and develop new product categories.

Extend Value-Added Services to Our Vendors: To support the shifting of vendor base away from the traditional sourcing countries, we have established a new Vendor Support Services unit within the Trading Network to help factories relocate to other countries and to improve operational efficiencies, enhance factory and worker safety, and raise compliance standards in the global supply chain. We recognize the importance of enhanced collaboration with our vendor base to raise compliance standards and improve efficiency of the global supply chain to better serve our customers.

We believe our vendors welcome our skills, expertise, and services to help them tackle the challenges they face and upgrade their operations. Further, as the leading sourcing company in the world, we believe it is our responsibility to play a key role in speeding up systematic, positive change that will improve the supply chain overall. The Vendor Support Services unit will provide services to our vendor base to enhance their competitiveness in terms of product development and technical and operations support, raw material procurement, trade credit services, as well as safety and compliance training and audits. These services are particularly aimed at vendors who seek to move factories to lower cost production countries, and in the process often face challenges in adapting to local regulations, language, worker training, raw material procurement, and logistics. The Group's global presence and established network can assist vendors in setting up sustainable production operations in new, emerging regions. The Group's 15,000 strong vendor base will evolve from being suppliers of products to also becoming customers of the Group for these vendor support services.

The creation of this new business unit is consistent with Li & Fung's commitment to the industry to be a leader in sustainability, worker safety and ethical labor practices. We have taken active leadership roles in recent years to enact change in the industry. We are a founding member of the Advisory Board of the Alliance for the Bangladesh Worker Safety, alongside major North American retailers and brands, and support the European-based Accord on Fire and Building Safety. For both of these important initiatives, Li & Fung was appointed as Advisor.

Solidify our Multi-Channel Sourcing Platform to Meet Customers' Evolving Needs: Customers source their products through multiple channels with different buying patterns to suit their needs. With the increasing importance of e-commerce, the Trading Network is exploring new strategic sourcing opportunities with core retail and brand customers, as well as with e-commerce companies to capture the opportunities from this growing distribution channel. In addition, we are positioning the Trading Network as the sourcing partner of choice for Asian retailers and brands who are increasingly looking for support in designing and sourcing goods for their own domestic and overseas markets. The Logistics platform will continue to focus on footwear and apparel, consumer products, retail, as well as food and beverage verticals, and leverage its unique pick-and-pack logistics to provide in-country logistics services to existing and new customers, and enter additional Asian countries.

Separate Brands and Private Label Businesses in Distribution: The Distribution platform has gained sufficient scale and evolved to become a truly global business and one of the world's largest wholesalers in its product categories. The wholesale distribution business comprises of brands and private labels, which are two distinct businesses with different core competencies requiring specific expertise and management skills. The brand business, which includes a portfolio of licensed and owned brands for sale to wholesalers, retailers, and end consumers, requires expertise in design, brand management and marketing, contrasted with private label business which relies more heavily on sourcing skills.

As part of the new Three-Year Plan, the Group will distinguish private label operations from brand operations globally. We will aggregate our wholesale private label business and our LF Asia non-brand business from the Distribution Network into the Trading Network. By combining the wholesale private label business with our agency and principal trading businesses, the Trading Network will operate as a global multi-channel sourcing platform providing all manner of products and services to customers across all buying channels.

The remaining businesses in the Distribution Network, comprised of owned and licensed brands, will be aggregated under a newly formed Global Brands Group ("GBG"). GBG will leverage its design capabilities, brand management experience and product expertise in multiple categories to create new product extensions and derivative brands for brand owners. GBG aims to provide fully integrated global solutions to enable licensors of international brands to expand into new product categories and new geographical regions. As part of this reorganization, we plan to eventually spin-off GBG as a separately listed entity in order to fully capitalize its growth potential.

In our new Three-Year Plan, the Group will continue to invest in its operating platform and infrastructure, as well as in select areas such as vendor support services and logistics, especially during the early part of the new Three-Year Plan to support organic growth. The new Three-Year Plan targets achieving a standalone core operating profit for the Trading Network that is larger than the entire Group's current core operating profit, a doubling of core operating profit for the Logistics Network and a more than doubling of core operating profit for the Global Brands Group by 2016. While accelerating organic growth as a means to gain market share will be the primary focus, the Group will also continue to pursue strategic acquisitions on a selective basis to boost overall competitiveness. The Group expects the new Three-Year Plan will result in a number of specific benefits to Li & Fung's overall business and will enable the Company to meet several key operating and financial targets, thereby increasing shareholder value.

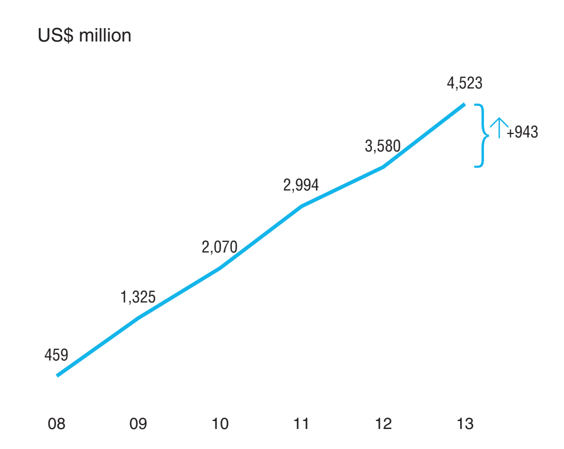
FINANCIAL POSITION

CASH POSITION AND CASH FLOW

The Group operates a cash accretive business, and has a proven track record of utilizing its positive operating cash flow to fund working capital, dividends, interest expenses, capital expenditures and selected small-scale acquisitions. It is normally when we have opportunities for large acquisitions that we seek external funding sources to meet payment obligations.

We started 2013 with a substantial cash balance of US$680 million, with part of the cash being a carry-over from the US$500 million perpetual capital securities issuance in November 2012. A significant portion of proceeds from this capital securities issuance was being earmarked for new acquisitions as well as outstanding contingent consideration payables relating to previous acquisitions as part of our capital structure management.

CUMULATIVE OPERATING CASH FLOW



SUMMARY OF CONSOLIDATED CASH FLOW STATEMENT

	2013 US$mm	2012 US$mm	Change US$mm
Cash and cash equivalents at 1 January	**680**	426	254
Net cash flow from operating activities	**943**	586	357
Investing activities	**(685)**	(763)	78
Financing activities	**(481)**	428	(909)
Effect on foreign exchange rate changes	**3**	3	–
Cash and cash equivalents at 31 December	**460**	680	(220)

Cash flow from operating activities

In 2013, operating activities generated cash inflow of US$943 million, which was a significant improvement compared to US$586 million in 2012 and above our operating cash flow level in 2011. The improved operating cash flow was mainly the result of improved core operating profit and more effective working capital management, in particular the collection of accounts receivable. We also employed a more prudent approach in inventory build-up for our wholesale distribution business, with part of such inventory being supported by the corresponding increase in accounts payable.

Cash flow from investing activities

Cash outflow from investing activities totaled US$685 million, mainly including consideration payments for prior years' acquisitions of US$409 million, new acquisition payments of US$178 million and capital expenditures.

Cash flow from financing activities

In 2013, the Group did not have any major new funding exercises from the capital markets. Financing activities mainly comprised dividend payments of US$332 million, interest expenses and distribution to perpetual capital securities holders resulting in net cash outflow of US$481 million. Both the investing activities and financing activities cash outflow were sufficiently supported by our internally generated operating cash flow as well as cash on hand carried over from the previous year.

As at 31 December 2013, the Group's cash position was US$460 million, compared to US$680 million at the beginning of the year. Given our positive cash flow-generating capabilities, the Group's intention is to maintain only a reasonable cash balance to fund our seasonal working capital needs on an on-going basis.

BANKING FACILITIES

Trade Finance

The Group's normal trading operations are well supported by over US$2.7 billion in bank trading facilities including mainly letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 31 December 2013, only approximately 30% of the bank trade facilities were utilized.

Bank Loans and Overdrafts

The Group had available bank loans and overdraft facilities of US$1.6 billion, out of which US$789 million were committed facilities. As at 31 December 2013, only US$211 million of the Group's bank loans and overdraft facilities were drawn down, with US$117 million being committed facilities. The unused limits on bank loans and overdraft facilities amounted to US$1,373 million, with US$672 million being unused committed facilities.

Bank Loans and Overdraft Facilities as at 31 December 2013

	Limit US$mm	Outstanding US$mm	Unused Limit US$mm
Committed	789	117	672
Uncommitted	795	94	701
Total	1,584	211	1,373

NET CURRENT ASSETS

As of 31 December 2013, the Group's current ratio was 1.1, based on current assets of US$4,298 million and the current liabilities of US$4,082 million, which was consistent with the ratio of 1.1 as of 31 December 2012. Since the previous Three-Year Plan (2008-2010) during which the Group was undertaking fast expansion in its Distribution Network (which required the maintenance of receivables and inventories at certain levels), the current ratio has not seen any significant deterioration. The Group has effective controls in place, with special focus on minimizing its trade receivables and inventories, and at the same time maximizing the use of supplier credit to assist its cash flow.

AVERAGE NET WORKING CAPITAL

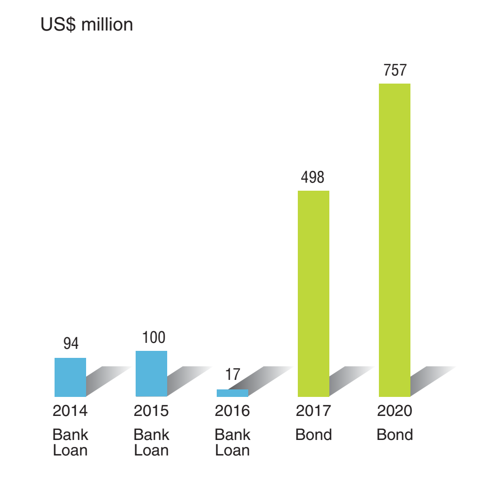
Net Working Capital is defined as total trade and other receivables, as well as inventories, less total trade and other payables. In 2008, the Group's Net Working Capital was US$477 million, with Average Net Working Capital to turnover at 3.5%. Since then the Group has been able to gradually maintain a steady decline in Net Working Capital to approximately US$431 million as at the end of 2013, with Average Net Working Capital to turnover declining to 2.0%.

CAPITAL STRUCTURE

The Group continued to adopt a conservative approach in managing its balance sheet and capital structure with a solid equity base, low gearing, and strong investment-grade credit ratings.

The Group's total equity remained at a solid position at US$5,550 million as at 31 December 2013, compared to US$5,137 million as at 31 December 2012 due mainly to the increase of retained earnings in 2013.

DEBT MATURING DATE



The Group's gross debt was US$1,466 million as at 31 December 2013, consistent with the 2012 year-end balance of US$1,473 million, with maturities spreading out over the next six years. As at 31 December 2013, the majority of the Group's gross debt was at fixed rates. Due to having less cash on hand at the period end, total net debt amounted to US$1,006 million as at 31 December 2013, resulting in a gearing ratio of 15%, which was well below the Group's internal guideline of 35%. The gearing ratio is defined as total borrowings, net of cash, divided by total net debt plus total equity.

As at 31 December 2013, the Group maintained credit ratings from Moody's and Standard & Poor's of Baa1 (stable outlook) and BBB+ (stable outlook), respectively. From a capital structure perspective, the Group is committed to maintaining a solid balance sheet, healthy cash flow and strong credit ratios, with the overall long-term target of retaining an investment grade rating to support our growth.

RISK MANAGEMENT

The Group has strict policies governing accounting control, credit and foreign exchange risk and treasury management.

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 on the trade terms with individual customers. It is not uncommon for the Group to require securities (such as standby or commercial letters of credit, or bank guarantee) from a small number of its customers who 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 new system with a dedicated team and tightened policies to ensure on-time recoveries from its trade debtors; and

(iv) It has set up rigid policies internally on provisions made for both inventories and receivables to motivate its business managers to step up their efforts in these two areas and 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 most of the Group's borrowings were denominated in US$.

The Group's revenues and payments were transacted mainly in the same currency, and predominantly in US$. Therefore, the Group doesn't believe there is 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.

While the Group's net revenue is substantially in US$, we are exposed to currency fluctuation on operating costs in sourcing countries such as China, Bangladesh, Vietnam, Korea and India to a certain extent. We manage such foreign currency risks through the following measures:

- From a short-term perspective, we arrange foreign exchange forward contracts for hedging on operating costs in individual countries as and when appropriate; and
- From a medium-to-long-term perspective, we manage our sourcing operations in the most cost-effective way within our global network.

The Group in general does not enter into foreign currency hedges with respect of its long-term equity investment. In particular, the Group's net equity investments in non-US dollar-denominated onshore wholesale businesses under the Distribution Network are subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

The Group strictly prohibits any financial derivative arrangement merely for speculation.

TAX DISPUTE UPDATE

As at the date of this Annual Report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") Department involving additional tax assessments amounting to approximately US$249 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 2012/13.

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 totaling 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.

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 HKIR transmitted the stated case to the High Court for determination.

The appeal by 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 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 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.

Regarding 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 at the date of this Annual Report, further directions/decisions from the Board of Review are awaited.

The Group has also filed objections with HKIR against the remaining additional tax assessments of US$206 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 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 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 at the date of this Annual Report, the hearing date for the judicial review application is yet to be fixed.

PEOPLE

As of the end of 2013, Li & Fung had a total workforce of 28,210, of whom 4,153 were based in Hong Kong, 9,428 in the Chinese Mainland and 14,629 overseas. Total manpower costs for 2013 were US$1,281 million, compared with US$1,324 million for 2012.

LEARNING AND DEVELOPMENT

Li & Fung has a clear vision and people strategy for long-term business sustainability. The focus is on building employee competencies and strengthening organizational capabilities.

In 2013, over 19,023 employees in 32 locations participated in 1,285 in-house learning programs and collectively over 2.6 training hours per person were provided. We also offered 190 face-to-face, formal learning sessions and 17 e-modules, with 7,597 of our Merchandisers participating throughout the year.

CORPORATE GOVERNANCE

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

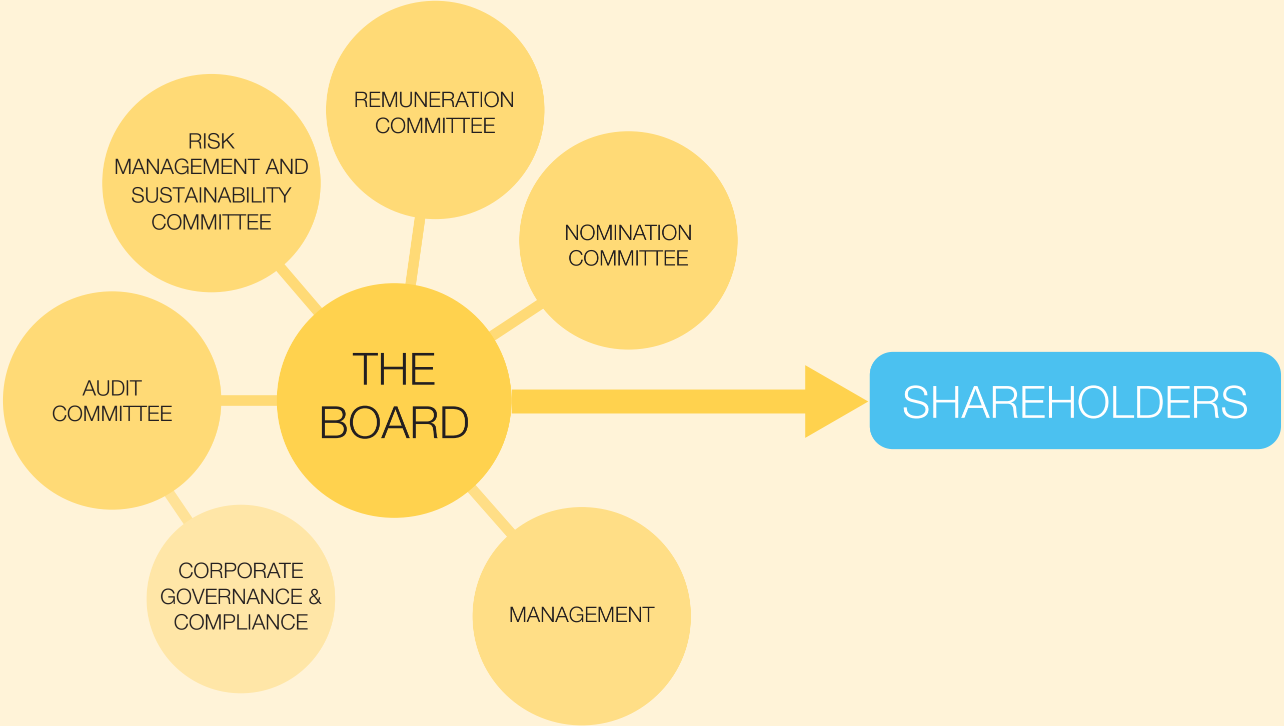
BOARD COMPOSITION

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 six 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 58 to 63.

BOARD DIVERSITY

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In May 2013, the Company adopted a Board diversity policy (the "Policy") which sets out the approach to diversify the Board of Directors.

Under the Policy, the Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Director when necessary.



In designing the Board's composition, the Nomination Committee has considered a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will also consider factors based on the Company's business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee recommended and the Board appointed Mrs Margaret Leung Ko May Yee as an Independent Non-executive Director and a member of the Audit Committee of the Company effected 1 April 2013.

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 2013 annual general meeting to answer any questions from the Shareholders on the audit of the Company.

In 2013, the Board held four physical meetings and three phone conferences (with an average attendance rate of 91%). A summary of the meetings held in 2013 is set out in the following table:

	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	◩◩◩◩◩■■	◩◩■	◩◩◩■			■
Mrs Margaret LEUNG KO May Yee[4]	■■■■■		■■■			■
Executive Directors						
Dr William FUNG Kwok Lun[5]	■■■■■■■			■■■■		■
Mr Bruce Philip ROCKOWITZ[6]	■■■■■■■			◩■■■		■
Mr Spencer Theodore FUNG[7]	■■■■■■■			■■■■		■
Group Chief Compliance Officer						
Mr Srinivasan PARTHASARATHY	■■■■■■■[8]	■■■[8]	■■■■[8]	■■■■	■■■[8]	■
Dates of meeting	9/1/2013[9] 21/3/2013 14/5/2013 9/7/2013[9] 13/8/2013 22/11/2013 23/12/2013[9]	20/3/2013 13/5/2013 21/11/2013	20/3/2013 13/5/2013 12/8/2013 21/11/2013	26/2/2013 16/4/2013 22/7/2013 15/10/2013	20/3/2013 13/5/2013 21/11/2013	14/5/2013

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: Appointed as Independent Non-executive Director and a member of Audit Committee on 1 April 2013; and attended Board and Committee meetings in March by invitation before becoming a Director
5: Chairman of the Board
6. Group President and Chief Executive Officer
7: Group Chief Operating Officer
8: Attended Board and Committee meetings as a non-member
9: Held by telephone conference

■ MEETINGS ATTENDED
◩ MEETINGS UNATTENDED

BOARD EVALUATION

The Board recognizes the importance and benefits of conducting regular evaluations of its performance to ensure the effectiveness of its functioning. On an annual basis, a questionnaire is sent to each Director in order to enable the performance of the Board to be evaluated. The questionnaire seeks their views focusing on the overall performance of the Board, the composition of the Board, conduct of Board meetings and provision of information to the Board. In 2013, the responses to the questionnaire were analyzed and discussed at the Board meeting. Suggestions made by the Directors have been incorporated as further improvements to the overall corporate governance regime.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence and is 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, 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/her 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)*.

Except for Mr Paul Selway-Swift, an Independent Non-executive Director, who has stood for re-election for a term of around one year at each annual general meeting since 2013, all other Non-executive Directors were appointed for a term of three years and all Directors are subject to retirement by rotation and re-election at annual general meeting. Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire and shall be eligible for re-election at each annual general meeting, provided that every Director is subject to retirement by rotation at least once every three years. In addition to the retirement by rotation, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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 2013, 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, two separate meetings between the Group Chairman and Non-executive Directors were held in May and November 2013 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 2013.

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 2013 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 an Independent Non-executive Director or a 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 three times in 2013 (with an average attendance rate of 83%) to review the Board composition (including Board diversity), the retirement of Directors by rotation, the re-appointment of retiring Directors at 2013 annual general meeting and the nomination of Directors to fill Board vacancies in 2013, 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 2013 (with an average attendance rate of 87%) 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 2013, the Committee's review covered the audit plans and findings of internal and external auditors, the 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 2013 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 2013, 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 2013, 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 2013 have been scrutinized by the Audit Committee (refer to details of fees to auditor in *Note 4* to the accounts on page 111).

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 2013 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 2014 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 2013 (with an average attendance rate of 96%) 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 Remuneration Committee 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 making recommendation to the Board on the remuneration policy for all Directors and senior management, including the grant of share options to employees under the Company's Option Scheme, and determining the remuneration packages of individual Executive Directors and senior management. It annually reviews the Group's remuneration policy.

The Committee met three times in 2013 (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 116 to 118.

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/her 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 73, 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, based on the Company's 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 those paid by Hang Seng Index constituent stocks 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.

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* (available at Li & Fung's corporate website) for all Directors and staff. A number of accompanying policies and guidelines covering anti-bribery, gifts, entertainment and hospitality, and whistle-blowing 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 and regular Code of Conduct trainings are also conducted for staff to reiterate the importance and principles of proper business ethics. 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.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The Board approves the Group's Three-Year financial budgets 2014-2016 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 38* and *39* to the accounts on pages 155 to 159.

INVESTMENT MANAGEMENT

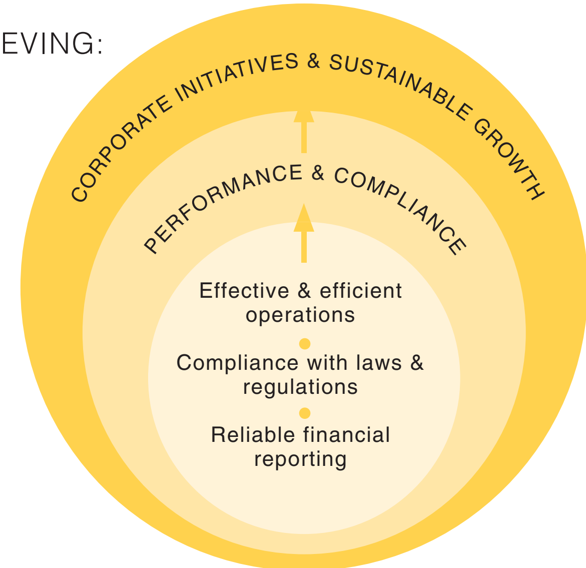
The Group Investment Committee (comprising the Honorary Chairman, Group Chairman, Executive Directors and senior management) develops investment control procedures, monitors and approves the Group's major investments and acquisitions. Significant investments and acquisitions (with consideration above 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.

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



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. The Group Chief Compliance Officer reports all major findings and recommendations to the Audit Committee on a regular basis.

The Internal Audit Plan of CGD, which is strategically linked to the Group's Three-Year Plan, 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 2013, 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. To facilitate the external auditor's audit of the Group, the external auditor attended all the meetings of both the Audit Committee and the Risk Management and Sustainability Committee. 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 2013.

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 2013:

- 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.

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 2011–2013. Details of our awards are set out on page 44 to 45.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code. Relevant employees who are likely to be in possession of unpublished price-sensitive information ("Inside Information") of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. For 2013, specific confirmation of compliance has been obtained from each Director and relevant employee. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2013.

The Company has also established a Policy on Inside Information to comply with its obligations under the SFO and the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT INTERESTS AND FINANCIAL RELATIONSHIP BETWEEN DIRECTORS

Details of Directors' interests in the Shares of the Company are set out in the Report of the Directors section on pages 73 to 75. 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 2013.

On 12 December 2013, King Lun through an indirect wholly-owned subsidiary acquired 16,667 shares representing 7.69% of the issued capital of Pure International Holdings (BVI) Limited ("Pure"), a company in which Hurricane (Venezuela) Limited ("HVL") also holds 156,875 shares representing 72.40% of the issued share capital of Pure. The ownership of King Lun is defined in the Glossary on page 175. HVL is a company beneficially owned by a trust which has been set up for the benefit of the family members of Mr Bruce Rockowitz.

DIRECTORS' RESPONSIBILITY FOR ACCOUNTS AND AUDITOR'S RESPONSIBILITY

The Directors' responsibility for preparing the accounts is set out on page 76, and the auditor's reporting responsibility is set out on page 77.

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 Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013.

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 Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through our Group's Investor Relations, whose contact information is detailed on page 64.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended 31 December 2013.

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.

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 date, venue and resolutions.

Li & Fung is aware of its obligations under the SFO and the Listing Rules, including the overriding principle that information which is expected to be 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. A Shareholders' Communication Policy has been reviewed by the Board regularly to ensure its effectiveness.

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 2013, 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 2013, are set out in the "Information for Investors" section on page 64 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 2013, 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" and one of *Fortune's* "World's Most Admired Companies". The Group was also named as having "Best Investor Relations by Hong Kong Company" by *Corporate Governance Asia's* Asian Excellence Recognition Awards 2013, and it received "The Asset Corporate Platinum Award 2013" 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

The business continued to invest in IT systems to support business growth, operations and information availability.

SUPPLY CHAIN COLLABORATION

Our vendor community supported by Total Sourcing, our Vendor portal, saw additional functional requests being added and specifically the introduction of an Advance Shipment Notice (ASN) module. The ASN module will help vendors in more rapid and accurate ASN generation by leveraging the existing data within Total Sourcing thus streamlining the processes for the vendors. The customer portal now provides tailored dashboards and online access to applications and will continue to be enhanced to provide a simple and convenient platform to access multiple assets from one place. Material Requirements Planning (MRP) upgrades for the distribution business were implemented in additional countries, while innovations such as the cluster pick and mobile picking stations were introduced along with electronic proof of delivery and web based milestone tracking. The Three-Year Plan (2014-2016) will see additional countries implementing transportation and freight management systems.

Management decision support was further supported by making information more easily accessible and by continuing to enhance dashboards for decision support were enhanced and extended to mobile platforms.

The introduction of Telepresence to complement the existing video conference and Internet Protocol Telephones broadened the scope of integration communications within the organisation and between partners and provided the full scope of user interactions from low to high definition. We will continue to invest to provide quality of communication, while leveraging our existing networks, to provide a real alternative to travel.

CORPORATE GOVERNANCE AND BEST MANAGEMENT AWARDS/RECOGNITIONS

2011

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

"Global 2000" Companies
Ranked No. 808 in Forbes 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

"One of the World's 30 Best CEOs" to Mr Bruce Rockowitz
By Barron's

"FT Global 500" Companies
By Financial Times in 2011

"Best Investor Relations by a CEO – Hong Kong" to Dr William Fung
By IR Magazine Greater China Awards 2011

"Best Investor Relations by an Asia Pacific Company in the US Market"
By IR Magazine US Award 2011

"Fabulous 50" Companies
By Forbes Asia in 2012

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

2013

"World's Most Admired" Companies
By Fortune in March 2013

"The Asset Corporate Platinum Award 2013"
For all around excellence in financial performance, management, corporate governance, social responsibility, environmental responsibility and investor relations by The Asset magazine in December 2013

"Global 2000" Companies
Ranked No. 716 in Forbes in April 2013

"Corporate Governance Asia Recognition Award 2013 – Asia's Icon on Corporate Governance"
By Corporate Governance Asia Journal in June 2013

"4th Asian Corporate Director Recognition Awards 2013" to Mr Bruce Rockowitz
By Corporate Governance Asia Journal in June 2013

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

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

SUSTAINABILITY

OVERVIEW

2013 marks the close of our latest Three-year Plan and the fourth year of implementing our holistic Sustainability Strategy, which was first formalized in 2009 within our Trading Network. We have also been progressively integrating our Logistics and Distribution Networks into our strategy and this year we have expanded our reporting disclosures in this section to our three Networks of Trading, Distribution and Logistics. Globally, our sustainability initiatives focus on improving social, environmental and economic conditions in our supply, logistics and distribution chains, enhancing the health and wellbeing of our people, reducing the environmental footprint of our operations, and contributing to the sustainable development of the diverse communities where we operate. We have focused our efforts on achieving our 10 Commitments, which help us to address all the areas of our strategy and meet quantitative targets that motivate and enable us to measure our progress.

As we look to our next Three-year Plan and expanding our strategy going forward, we also look back on our performance, which includes what we have achieved, the challenges we have faced and the learning that comes along this journey. We have made progress in implementing our strategy and an important part of this is minimizing risk, effecting change and taking action to address global, sustainable development challenges. These range from climate change, water and resource scarcity and environmental degradation, to the fair treatment, access to education and income distribution of our global citizens. We also reflect on both our responsibility to our employees, to our customers and to our vendors and the workers in our supply chain, and our ability to influence and support positive change in our industry. We recognize that our business is well positioned to improve both working conditions and the livelihoods of workers and their families in our sourcing communities.

While we have always worked to uphold and improve workplace standards, the need for concerted, wide-scale industry action sadly came to the forefront with the tragic death of workers at the Tazreen garment factory in Bangladesh in November 2012 and at the Rana Plaza factory building in March 2013. 2013 has been a significant year for the apparel industry in that these events have galvanized companies to collaborate to implement common standards for safety and to provide practical support for factories to improve conditions in Bangladesh. Actions we have taken to support the victims of the fire at the Tazreen factory and the leading multistakeholder initiatives, such as the *Alliance for Bangladesh Worker Safety* and the *Accord on Fire and Building Safety* that have been organized by industry and non-governmental organizations (NGOs), are provided below. We see these initiatives as standard setters for improvements in safety and workplace conditions globally that will bring increased development and competitive benefits to emerging economies.

Our progress in implementing our Sustainability Strategy and our performance are reviewed quarterly by the Risk Management and Sustainability Committee of the Li & Fung Board. Highlights of sustainability initiatives and achievements in 2013 are shared below.

ENVIRONMENT

In today's world, the physical and financial challenges arising from climate change, population growth, resource scarcity and environmental degradation are real and impact on business growth and people in communities around the world. We recognize that economic development and quality of life in the developing countries where we operate are even more significantly impacted by these challenges. Furthermore, changes in weather patterns and the increasing severity of storm events are real risks that are already demonstrating impacts to the sourcing, distribution and delivery of goods and services. Addressing these risks and challenges is integral to our Sustainability Strategy and requires us to be more efficient and to source and use environmentally-responsible resources, materials, equipment, building materials, services, etc. This motivates us to responsibly manage our environmental footprint for what we can control within our own operations and to influence those involved in the sourcing, distribution and logistics aspects of our activities.

Key actions taken within our own operations are shared in this section and those to support our vendors are outlined in the next. Previously, disclosures regarding our environmental performance primarily focussed on implemented initiatives within our Trading Network to reduce the intensity of our carbon footprint and of our water and paper consumption as our global operations expanded, and to adopt sustainability elements in the design, construction and renovation of our facilities. As we have progressively integrated our Logistics and Distribution Networks into our overall Sustainability Strategy, we are able to also expand our reporting; key environmental performance results are provided below for Li & Fung as a whole, and for each of our three Networks. As previously reported, 2010 is the baseline year for measuring Trading's performance results. Going forward, we will set 2013 as the baseline for the Company and each Network, under our new Three-year Plan.

In addition to specific initiatives outlined below, it is worth noting that since early 2011, LF Asia's manufacturing plant in Thailand, which provides an example within our Distribution Network, has been implementing a comprehensive program to raise employee awareness and engagement on sustainability. The program focuses on three areas: greening the facility with vegetation; adopting an approach of "reduce, reuse and recycle" in the implementation of its purchasing, consumption, recycling and disposal systems; and investing in energy-efficient air conditioning, lighting in parking and entrance areas and air compressor systems. These, and other efforts, have resulted in the facility being awarded the Good Environmental Governance Certificate by the Ministry of Industry for the second consecutive year.

ENERGY AND CARBON

Energy consumption and the nature of our carbon footprint globally are characterized by our Trading Network being dominated by offices, Logistics by distribution centres and warehouses (DCs) and Distribution by manufacturing facilities.

Based on the findings of the Investment Grade Audit that was conducted of our Hong Kong headquarters in 2010, we have been implementing best practices throughout our global offices since then and taking specific actions in our DCs and manufacturing plants to review consumption and invest in energy-efficient building systems, equipment and lighting, and fuel-efficient transport. Year on year, our absolute consumption and emissions have increased as our operations have expanded globally. However and in 2013, the intensity of our electricity consumption over our baseline of 2010 has decreased by 27% by area and of our carbon emissions by 28% by area (m^2) within our Trading Network. The investments we have progressively made since 2010 in energy-efficient systems, equipment and lighting have also enabled our Trading Network to reduce the intensity of our carbon footprint and collectively, from 2013 onward, to save over US$600,000 in avoided energy costs each year.

In 2013, we continued to expand energy-saving initiatives throughout our global Networks, which 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;
- Consolidating and 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;
- Continuing to implement Logistics' Lean Transport initiative that includes: improving route planning to reduce fuel consumption and carbon emissions; maximising vehicle loads, minimizing truck mileage and consolidating customer deliveries; and optimizing the proximity of DC facilities to supplier and customer locations;
- Sharing and implementing the energy-saving opportunities within our Networks that were identified by our *Energy-efficiency Program* (see Supply Chain section below for details);
- 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. A tailored version for our DCs was also launched in 2013.

Our energy consumption metrics and our Scope 1 and 2 greenhouse (GHG) emissions are provided in the tables below. Data is provided for the years 2010 to 2013 for our Trading Network and on both a consolidated and separate basis for our three Networks in 2013. This data also comprises part of our annual disclosure through the Carbon Disclosure Project.

WATER AND WASTE

Water conservation is a significant issue for all businesses. Not only is water essential for life, it is an important input to economic activity. In addition to factoring water supply risk into our sourcing, logistics and distribution activities, and supporting our vendors to be water efficient, doing what we can within our own operations is critical. As we have previously reported, we have extensively installed water-efficient faucets, fixtures and fittings in our offices and facilities, including, for example, our facility in Thailand that operates a deionizing water treatment plant that reduces water consumption and brings a net cost saving of US$6,500 per year. We also encourage our employees to conserve water in their daily lives. In 2013 and as reported in the table below, the Company's water consumption increased in absolute terms as our operations expanded. However, consumption intensity reduced by 5% per person over our 2010 baseline for our Trading Network.

In 2013 and in comparison with our 2010 baseline, we have reduced our absolute paper use by over 20,000 reams and per person consumption has reduced by 28% for our Trading Network. Our offices in Hong Kong use paper that is certified by the Forest Stewardship Council TM (FSC^{TM})[1] as being from mixed, responsible sources. For our Hong Kong offices, we continue to maintain our "Class of Excellent" recognition under the local government's Wastewi$e scheme. We also reviewed our recycling program and enhanced the capture of our recyclables, including used paper, packaging, aluminum cans and plastic bottles, for recycling by both a local company and social enterprises. Globally and as previously reported, all of our offices and facilities seek to maximise waste reduction, reuse and recycling.

1 *FSC license number FSC-C022427.*

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

TRADING NETWORK – ENVIRONMENTAL METRICS COMPARISON FOR 2010–2013[2]

	2010	2011	2012	2013	2013 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	36,032	402	–28%
		kWh			kWh (+/–)	kWh/m^2
Electricity	47,504,489	45,405,947	48,671,935	48,963,692	1,459,203	–27%
		m^3			m^3 (+/–)	m^3/headcount
Water	105,310	124,064	125,834	117,928	12,618	–5%
		reams			reams (+/–)	reams/headcount
Paper	136,678	149,072	133,686	116,128	–20,550	–28%

TRADING, LOGISTICS AND DISTRIBUTION NETWORKS – ENVIRONMENTAL METRICS BASELINE FOR 2013[3]

	Networks			
	Trading[4]	Logistics	Distribution	Li & Fung
		Actual Consumption		
		tons CO_2		
Carbon (Scope 1 & 2)	33,198	25,597	42,412	101,207
		kWh		
Electricity	43,745,719	41,687,487	65,857,384	151,290,590
		m^3		
Water	212,639	332,577	1,014,976	1,560,192
		reams		
Paper	95,280	104,158	72,479	271,917

2 *To provide comparability with our reporting since 2010, the environmental metrics include data for our Trading Network, which has office-based operations in Bangkok, Central America, Hong Kong, India, Indonesia, Istanbul, Korea, Shanghai, Shenzhen and Taiwan, and those of our Distribution Network based in Europe and the USA.*

3 *2013 marks the first year of disclosing data for our combined Trading, Logistics and Distribution Networks. 2013 therefore establishes the baseline year for reporting on Li & Fung going forward.*

4 *Environmental data for this baseline includes our global offices, six factories in Shanghai and Shenzhen and one warehouse in Hong Kong that are part of the Trading Network. Data for our operations in Europe and the USA, which was previously included in the Trading Network, is now reported as part of the Distribution Network for 2013.*

SUSTAINABLE BUILDING AND RENOVATION

Since our first environmental certifications for properties in Hong Kong in 2011, we have continued to integrate sustainability features into how we design, build and renovate our offices, DCs and manufacturing facilities across our Networks. In 2013, two of our office floors in the Empire State Building, which has been refurbished to maximize energy efficiency, were certified to LEED[5] Platinum and one to LEED Gold for commercial interiors. These three new floors, which will be progressively joined by others as the fit out of our premises is completed, feature daylight harvesting with sensors and automatic controls, high-efficiency lighting, optimized heating, ventilation and air conditioning (HVAC) units, demand-controlled ventilation with CO_2 sensors to monitor occupancy and adjust outside air intake and plug load management. Also in New York, our Frye flagship store in SoHo achieved LEED Platinum for retail commercial interiors and features FSC-certified materials, recycled steel and aluminum, as well as an HVAC system that cleans air emissions prior to their discharge. As of 2013, we now have 13 LEED and BREEAM[6] certifications within our Networks, as well as one, Silver Class Green Building certification for our Rui Fang DC in Taiwan.

SUPPLY CHAIN RESPONSIBILITY AND OUR PARTNERSHIPS

At Li & Fung we recognize that through our business we contribute to economic development in emerging economies around the world and to the wellbeing of workers in our supply chain, as well as their families and communities. Conducting our business transparently and sourcing responsibly provides a powerful opportunity for change and, given the scale of our operations and our presence on the ground and local knowledge, for us to effect sustained industry change.

As we reported previously, 2012 began with the launch of our updated *Code of Conduct for Suppliers* and *Supplier Compliance Manual*. In addition to the training that we previously conducted, in 2013 we held over 500 training sessions for over 18,000 factory representatives as well as 3,000 of our employees. We also updated our compliance rating system and our screening, auditing, assessment, reporting and support tools. In 2013, we significantly expanded the implementation of our updated compliance standards and processes, which are in line with industry requirements, and our offering of capacity-building tools and resources for vendors and factories. These resources, which are outlined below, cover issues and risks associated with business operations and labor, health and safety, environmental and security practices.

- The *Sustainability Resource Center* website, which provides our vendors with access to our compliance resources and tools, updated industry information, training schedules around the world and a suite of resources to assist them to improve performance, has been expanded and enhanced in 5 major languages.

- The *Supplier Compliance Manual*, which outlines how to meet our *Code of Conduct for Suppliers*, has now been translated into 7 languages.

- The *Critical and Major Issues Tutorial* and *Zero Tolerance Issues Tutorials,* which provide detailed guidance to vendors and factories on how to address issues and what is required to demonstrate compliance with LF standards, have also been translated into local languages.

- The comprehensive *Occupational Safety & Health Toolkit*, which assists vendors and factories to adopt safe and healthy systems and practices in their workplaces, is now available in 11 languages and tailored to local requirements.

- Training modules on the prevention of human trafficking, improving workplace conditions, human resources management, meeting local legal standards and export security requirements are available for vendors and factories.

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

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

- *Sustainable Suggestions for our Partners* provide "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* are a series of short, user-friendly and practical videos developed with the support of the Fung Academy. The first in the series, on fire safety, was launched in 2012 and is now complemented with modules on electrical safety, managing working hours and manufacturing excellence, with more to come.

In addition to our collaboration in Bangladesh, which is described below, we continued to deepen our involvement with several key industry initiatives that bring our customers and industry partners and associations together to work collectively to set standards and effect change. We also collaborate with our customers and NGOs to implement focused programs that address the particular challenges of our industry and the specific countries where we operate. Key examples are provided below.

- In 2013 we were recognized as an International Labour Organization's Better Work Partner and for which we continue to support factories to improve labor conditions in Cambodia, Haiti, Indonesia, Jordan and Vietnam.

- Recognizing that healthy employees contribute to the health of a business, we work with Business for Social Responsibility (BSR), the Fung (1906) Foundation Limited and our customers to implement the *HER Project* in 14 factories in Bangladesh, China, India, Indonesia, Pakistan and Vietnam. The project empowers women with the knowledge and skills to improve their health, living conditions and livelihoods.

- Working with Care International in four factories on the three-year *Hemaya Project* to empower Jordanian women who work in the Jordanian garment sector, improve workplace relations, reduce poverty and improve livelihood options for local women and families.

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

- As a founding member of the Sustainable Apparel Coalition (SAC) we have been actively involved in the development of the Higg Index, with the Higg Index 2.0 being launched in November 2013. In addition to participating in various module working groups, LF assisted in the pilot testing of the footwear and the social and labour modules at three factories in China and collaborated with key customers to develop related training materials.

- We are also members of the Global Social Compliance Programme (GSCP), supporting its efforts to improve working and environmental conditions in the global supply chain through a Code equivalency program.

We also implemented focused initiatives, some in collaboration with customers, which continue to be expanded and replicated in our supply chain. Examples include:

- Raising awareness and training our employees and vendors on the requirements of new legislation, such as the *California Transparency in Supply Chains Act* to combat human trafficking and tracing conflict minerals.

- Supported by the Fung Academy, implementing a bespoke *Energy-efficiency Program* for logistics warehouses/distribution centers, manufacturing plants and apparel and footwear factories. Each participating operation received an energy consumption assessment, an onsite audit and training and support to develop and implement initiatives to reduce energy consumption and improve efficiency. As a result of the program, it was identified that collectively the 15 participating facilities could leverage over 200 opportunities to reduce energy consumption and save up to US$2.1 million per year.

- Supporting factories to implement an online sustainability assessment tool to review performance against five key sustainability categories of policy and management, energy and emissions, waste and recycling, water and supply chain.

- Conducting comprehensive environmental and carbon footprint measurements for 29 apparel factories in Cambodia, China, Bangladesh, India, Indonesia, Malaysia, Nicaragua and Vietnam. Resources are also provided to improve performance, implement actions and regularly report on environmental and carbon metrics.

- 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.

- Investigating new technologies that provide environmentally-responsible solutions for the worlds' unrecycled apparel, footwear and other products, such as BluePel, which is a 100% organic additive that enhances the biodegradability of synthetic materials (e.g. synthetic fabrics, yarns, zippers, threads, soles and other plastics) in actively-managed landfills.

As always, the safety of workers in our supply chain is a priority for Li & Fung and this is embedded in our approach to sourcing and is integral to our compliance and sustainability program. We have long recognized that significant efforts, in collaboration and in partnership with our stakeholders, are required to improve labor practices and working conditions, and to reduce environmental impacts, in the global supply chain.

In 2013, we continued to be actively engaged in Bangladesh, working with governmental and non-governmental organizations, our industry partners and our vendors to improve safety in factories. As stated earlier, this need was sadly reinforced by the tragic fire in November 2011 at the Tazreen garment factory in Bangladesh. We participated in aid efforts for immediate relief and matched the Bangladesh Garment Manufacturers and Exporters Association's financial assistance to each family of every victim.

Following the collapse of the Rana Plaza building in April 2013 that resulted in the tragic loss of over 1,100 workers in Bangladesh, concerns over safe working conditions in factories further heightened. As a result, the industry has come together to implement a coordinated response to improve safety conditions in Bangladesh. Li & Fung supports this response as a member of the Board of Advisors of the North American-based *Alliance for Bangladesh Worker Safety*. We also support the work of the European-based *Bangladesh Accord on Fire and Building Safety* and that of the ILO and the Bangladeshi Government to implement the *National Tripartite Plan of Action on Fire Safety and Structural Integrity* in the garment sector.

OUR PEOPLE

As of the end of 2013, Li & Fung had a total workforce of 28,210. Globally, 4,153 of our employees are based in Hong Kong, 9,428 in the Chinese Mainland and 14,629 overseas, with 13,073 in Trading, 9,619 in Distribution and 5,518 in Logistics. By gender, women represented 54% and men 46% of our employees. 98% of our female employees work in full-time positions with 86% and 14% on permanent and other contracts, respectively. For our male employees, 99% work full time with 87% and 13% on permanent and other contracts, respectively. Total manpower costs for 2013 were US$1,281 million, compared with US$1,324 million for 2012.

LEARNING AND DEVELOPMENT

Li & Fung has a clear vision and people strategy for long-term business sustainability. The focus is on building employee competencies and strengthening organizational capabilities. We determine which skill sets will enable us to achieve our business strategy and then align our recruitment, retention, learning and development initiatives to foster those skill sets. This includes building our core expertise in supply chain solutions, leadership development at different management levels and productivity improvement interventions.

In 2013, over 19,023 employees in 32 locations participated in 1,285 in-house learning programs and collectively over 2.6 training hours per person were provided. Our core expertise curriculum covers over 106 topics on product and production knowledge, productivity improvement in processes and practices, and performance enhancement skills. The delivery format includes both formal classroom training and online learning. We offered 190 face-to-face, formal learning sessions and 17 e-modules, with 7,597 of our Merchandisers participating throughout the year.

We foster leadership at all levels. In developing our leaders, we believe in networking, experiential learning and creating on-the-job experiences. This includes challenging job assignments, working on real-life projects and supporting our people to be "teachers", transferring their knowledge in different work contexts. At Li & Fung, they are known as "Learning Champions" and we have over 211 of these leaders around the world. These developmental opportunities are a critical part of our overall leadership development philosophy.

In 2013, we continued to partner with the MIT Sloan School of Management and The University of Hong Kong to deliver the Executive Leadership Program for our global leaders. Our Advanced Leadership Program, targeting senior business leaders, has completed its second year of running in partnership with Stanford University. Over the year, more than 300 of our top business leaders from across the globe came together to network, share and learn, which also created a more collaborative culture conducive to our business growth.

For middle-level managers who transition into a new leadership role, we have the New Managers Program. The Program for Management Development (PMD) ran for the fourth successive year with the aim of developing future business leaders. In 2013, 15 Management Associates representing ten nationalities participated in the nine-month structured and intensive development program comprising corporate orientation and business rotational assignments in the Company's core businesses.

Besides structured and formalized learning and development activities, we also incorporated informal opportunities such as online and mobile learning into our programs. Our employees can learn through a robust learning platform of performance support resources, which includes job-aids, checklists, access to subject matter experts, online information search engine and peer collaboration. This platform provides a global connection and employees benefit from real-time, self-paced learning. In 2013, we had a record of over 13,350 active users of this online platform, representing a 535% increase over the 2,102 users in the previous year.

At Li & Fung we know how important it is to create an environment where our employees are able to develop their skills and are inspired to be the best they can be. Supporting our people to develop and thrive remains a key business imperative. We will continue to support career development by providing clear career roadmaps and offering development opportunities to our employees through enhanced on-the-job, social and informal learning opportunities. Recognizing the importance of feedback and direct engagement in career development, we enhanced our existing, biannual performance review management system with the rollout of an online interactive module in 2013. As in previous years, performance reviews were offered to all of our global colleagues and, in 2013, 86% of our employees completed reviews.

EMPLOYEE ENGAGEMENT

In 2013, over 45 programs were organized around the globe, led by our senior executives taking on the role of "Engagement Champions". They spearheaded activities in their respective businesses and shared examples of employee engagement in action. This included hosting a variety of communication and engagement activities, such as town hall meetings and events, as well as sports tournament, health and safety weeks and lunch-and-learn sessions to enhance the health and wellbeing of our employees. For example, our office in Shenzhen organized "how to" lunchtime sessions on yoga and karate. To demonstrate our C.A.R.E. values and behaviors, which are around the themes of *Connect, Appreciate, Respond and Encourage*, different kinds of appreciation and social networking events were held throughout the year. These ranged from birthday parties, happy hour get-togethers, inter-departmental competitions, special days for parents and kids, and appreciation and Long-Service Award presentations with over 7,000 employees and family members participating.

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

OCCUPATIONAL HEALTH AND SAFETY, WELLBEING AND HUMAN RIGHTS

In 2013, we continued to implement initiatives to support the health and wellbeing of our people by providing safe, healthy and respectful workplaces throughout our global operations. Our daily *Useful Tips* emails continued to feature a range of topics on occupational health (e.g. stretching exercises, ergonomics) and wellbeing (e.g. healthy eating, stress management). Examples range from our office in Cambodia organizing training on how to handle conflict and think creatively, to employees in Guatemala having the flexibility to leave early on the Friday if they arrived early during the week, to flexible working hours for selected employee with challenging needs in Singapore.

We also continued 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. Formalized occupational health and safety systems are implemented throughout our Logistics and Distribution Networks and our manufacturing facilities in Indonesia, Malaysia and Thailand are also certified to the Occupational Health and Safety Management System (OHSAS) 18001 standard. Additionally, LF Asia's operations in Thailand, which are part of our Distribution Network, received the *Outstanding Establishment on Labor Relations and Welfare Award*, from the Thai Labor Protection and Welfare Department, for the 6th consecutive year. The award was established by the Thai government in an effort to improve workplace conditions and employee welfare, and also recognizes leading companies for implementing outstanding employee engagement strategies.

As always, we continued to support human and labor rights and ethical practices in our workplace, as guided by our *Code of Conduct and Business Ethics* that was updated in 2012. The Code 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*. Its implementation is supported by policies and guidelines for addressing the Code elements in the acquisition of new businesses and in our ongoing recruitment, training, performance assessment, disciplinary and grievance processes. Compliance with our Code is reported quarterly to both the Audit Committee and the Risk Management and Sustainability Committee of the Board and reviewed by our Corporate Compliance Group, which reports any material non-compliance independently to the Board through the Committees.

COMMUNITY ENGAGEMENT

In 2013, community engagement gained even more traction globally at Li & Fung. We implemented more programs, together with our employees and their personal networks, to support communities where we live and work. Around the globe, we maximized impact through activities which were aligned to our business, and to specific needs in each of our markets. Key areas of focus continued to be building sustainable communities, caring for the environment and building human capital.

We deepened relationships with community partners to leverage and extend positive outcomes. Employees were encouraged to share their activities with their families and friends and to invite them to join us in learning and in action. Partners we worked with around the globe included NGOs, governmental agencies, social enterprises, community groups, customers, industry peers, Fung Group companies and families and friends.

Resources were strengthened once again this year to direct and leverage activities initiated by our people around the globe. Ten updates of our Community Engagement Newsletter shared stories about the impact of our activities throughout 2013, inspiring more to connect with their communities and take action. Community engagement features were also regularly shared on "One Family", our internal, online communication platform. Toolkits for campaigns were developed, communication materials shared, and an enhanced process for reporting activities throughout our Networks was instituted. These steps helped to enhance our work in communities and ensure our results were captured.

In 2013, we gained even more leverage from the global campaigns that were initiated in previous years, thanks to our global team of ambassadors in all our markets, and with support from the Fung (1906) Foundation Limited (Fung Foundation). Our global campaigns, which raised awareness and financial support, included: a year-long "clean up our world" campaign of coastal cleaning, tree planting and action to protect turtle and elephant populations; Red Décor Day (dress in red) and blood drives (annually, semi-annually or quarterly) to support humanitarian causes; Breast Cancer Awareness Month; and Movember (during the month of November) to support men's health awareness. Highlighting but a few of our many activities in 2013, we also:

- Transformed the lives of students and youth by sharing our skills, experience and expertise through job shadowing, career workshops, speaking engagements, mentorships and internships.

- Provided disaster relief funding, essential goods and hands-on support in response to global calamities that included flooding in China, Germany, India, Indonesia and Thailand, typhoons in the Philippines and Vietnam and an earthquake in China.

- Empowered community members by supporting vocational training and skill-enhancement in Germany, India and the USA.

- Improved schools, children's homes and elderly care homes in Guatemala, Malaysia, Pakistan and Portugal. Helped repair and build homes in China, Hong Kong and India.

- Provided refurbished computers and new supplies to school children in various parts of rural China and Turkey.

- Supplied food and essential items to homeless and disadvantaged community members in Indonesia, Malaysia, the Philippines, the United Kingdom and the United States directly and through community organizations. Shared mooncakes and time with people in need in Hong Kong and Taiwan.

- Donated goods, books, clothes, toys and scarves (lovingly knitted by our people) to the elderly, refugee families, children in need, the homeless, orphans, victims of natural disasters and rural communities in Bangladesh, China, Hong Kong, India, the Philippines, the United Kingdom, the USA and Vietnam.

- Joined seminars, community-building activities and sporting events to raise awareness and funds for causes around the globe, including cancer care, learning disabilities, literacy, medical needs, disadvantaged children, elderly in need, families, accident victims, and other community members needing support.

- Taught children in rural communities and informal settlements in Cambodia to say no to drugs, as well as providing them with dental hygiene lessons and kits.

- Joined a mission in the Philippines to serve communities in need by distributing food, medicine and toiletries.

Participants reported positive team-building experiences while taking part in community activities. These events and projects provided an opportunity to connect outside of the workplace, to strengthen bonds with customers, and to share knowledge and inspiration with family and friends, thus extending what we do deeply into our networks and communities.

Our community engagement activities go hand-in-hand with our employee engagement "C.A.R.E." program, both of which enhance our experiences and contribute to the transformation of our workplaces. We focus on community engagement not only to benefit communities, but also to support the health and wellbeing of our employees and our communities, add value to our personal and professional development, help attract and retain talent, and reiterate Li & Fung's core values. To reinforce how, together, we can create positive, long-term change in the world, we developed our community engagement signature for our initiatives, featuring an infinity sign and the phrase "In It Together".

In 2013, our employees volunteered over 20,100 times, giving over 32,000 hours to support 290 environmental and social initiatives around the world. Corporate donations from Li & Fung to support charitable organizations and activities around the world totaled US$1.49 million. Our employees also raised over US$346,000 to support communities, with the Fung Foundation providing over US$332,000 to further support some of these projects. Of our 290 initiatives spearheaded in the markets where we live and work, over 100 involved hands-on activities supporting communities, 40 involved working with or caring for youth, 21 had an environmental focus, and 15 were for providing basic needs or disaster relief.

RECOGNITION

As a signatory to United Nations' Global Compact (UNGC) 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 Asia-Pacific Sustainability Index for the Textiles, Clothing, Accessories and Footwear sector, the FTSE4Good ESG Ratings for Asia excluding Japan 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 68. Brother of Dr William Fung Kwok Lun and father of Mr Spencer Theodore Fung. Group Chairman of the 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, 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 and Chow Tai Fook Jewellery Group Limited (Hong Kong), Koc Holding A.S. (Turkey) and China Petrochemical Corporation (People's Republic of China). Founding Chairman of the Fung Global Institute, an independent non-profit think-tank based in Hong Kong. Completed his term as Honorary Chairman of the International Chamber of Commerce ("ICC") end of June 2013, but continues to chair the World Trade Agenda Initiative of ICC's G20 Advisory Group. A member of the Chinese People's Political Consultative Conference and a vice chairman of China Centre for International Economic Exchanges. A member of the Economic Development Commission of the Hong Kong Government. 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), a member of the Commission on Strategic Development of the Hong Kong Government (2005–June 2012), Chairman of ICC (2008–2010) and a member of WTO Panel on Defining the Future of Trade (2012–April 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 65. 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 including Convenience Retail Asia Limited and Trinity Limited. A director of King Lun Holdings Limited and its wholly owned subsidiary, Fung Holdings (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 (1994–1996), the Hong Kong Exporters' Association (1989–1991) and the Pacific Economic Cooperation Committee (1993–2002). 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 55. 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. Non-Executive Chairman of the Pure Group, a lifestyle, fitness and yoga group operating in Hong Kong, Singapore, Taiwan and mainland China. An independent non-executive director of Wynn Macau, Limited. 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). 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 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 in 2012 and 2013.

Spencer Theodore FUNG

Group Chief Operating Officer

Aged 40. Group Chief Operating Officer since 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. A director of Young Presidents' Organization. A member of the General Committee of The Hong Kong Exporters' Association and the Board of Trustees at Northeastern University. 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 US 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 69. 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 (1996–1998), a director of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong (1992–1998) and Temenos Group AG (2001–2012).

DIRECTORS (CONTINUED)

Allan WONG Chi Yun

Independent Non-executive Director
Chairman of Remuneration Committee

Aged 63. 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 76. 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 (1975–1978) and Chairman of Executive Education Programs (1977–1980). Graduated from the Harvard Business School with a doctorate. Senior Associate Dean (1990–2004). An independent non-executive director of Computer Sciences Corporation (1989–2012).

Martin TANG Yue Nien

Independent Non-executive Director

Aged 64. 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. Vice Chairman of the Council of The Hong Kong University of Science and Technology. 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

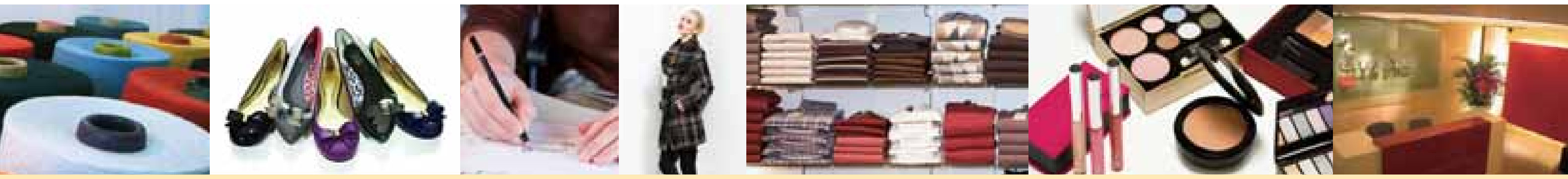
Non-executive Director

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, a substantial shareholder of the Company. A non-executive director of Convenience Retail Asia Limited. 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 57. 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, an independent non-executive director of Sino Land Company Limited (2005–2011) and CapitaLand Limited (2009–2012).



Margaret LEUNG KO May Yee
Independent Non-executive Director

Aged 61. An Independent Non-executive Director since 1 April 2013. Former vice-chairman and chief executive of Hang Seng Bank Limited, chairman of Hang Seng Bank (China) Limited, a director of various subsidiaries of Hang Seng Bank Limited, a director of The Hongkong and Shanghai Banking Corporation Limited and the Group General Manager of HSBC Holdings plc prior to her retirement from the HSBC group in June 2012. Deputy chairman, managing director and an executive director of Chong Hing Bank Limited since 14 February 2014. An independent non-executive director of First Pacific Company Limited, Sun Hung Kai Properties Limited and Hong Kong Exchanges and Clearing Limited. An independent non-executive director of QBE Insurance Group Limited since 21 August 2013 and China Construction Bank Corporation since 12 December 2013. Formerly, an independent non-executive director of Swire Pacific Limited (2008–2012) and Hutchison Whampoa Limited (2009–2012). Holds a Bachelor's Degree in Economics, Accounting and Business Administration from The University of Hong Kong.

GROUP CHIEF COMPLIANCE OFFICER

Srinivasan PARTHASARATHY

Aged 56. Group Chief Compliance Officer of the Company since 2011. Also, the Group Chief Compliance Officer of Fung Holdings (1937) Limited, a substantial shareholder of the Company and of the Fung Group of companies including Convenience Retail Asia Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. With over 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 47. Chief Financial Officer of the Group since 2012, overseeing the Group's global finance functions, including corporate finance, treasury, investor relations, financial planning and analysis, risk management, and financial reporting. Over 20 years of experience in banking, finance, and accounting. Prior to joining Li & Fung, held various senior corporate and investment banking positions at Citi and Morgan Stanley, and practiced public accounting at Coopers & Lybrand. 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*. A US Certified Public Accountant, and a member of Takeovers and Mergers Panel of Securities and Futures Commission of Hong Kong.

SENIOR MANAGEMENT FOR THE YEAR 2013

Annabella LEUNG Wai Ping
President of LF Fashion

Aged 61. 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 2013 (CONTINUED)

Dow Peter FAMULAK

President of LF USA and Chief Executive Officer of LF Europe

Aged 53. President of LF USA and Chief Executive Officer of LF Europe, managing the Group's distribution business in the US 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

Executive Director of Li & Fung (Trading) Limited

Aged 52. Executive Director of Li & Fung (Trading) Limited focusing on strategic projects on corporate level. 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, President of LF USA Sourcing, managing all Asia operations of LF USA. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

Gerard Jan RAYMOND

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

Aged 57. 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 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.

Henry CHAN

President of LF Products

Aged 63. 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.

Jason Andrew RABIN

President of LF Asia – Fashion & Home

Aged 44. 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.

Joseph Chua PHI
President of LF Logistics

Aged 51. President of LF Logistics managing the Group's logistics, freight, 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 (UP) 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. 2011 recipient of UP College of Business Administration Distinguished Alumnus Award. 2013 recipient of UP Industrial Engineering Alumni Award and UP Alumni Engineers Global Achievement Award for Logistics. 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). Adjunct Professor of Information Systems, Business Statistics and Operations Management at HKUST. Member of Supply Chain 50, an association of the top supply chain professionals in the world.

Lale KESEBI
Executive Director of Li & Fung (Trading) Limited

Aged 45. 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, Co-chair of the Alumni Network Steering Committee of the Mentoring Programme for Women Leaders of The Women's Foundation in Hong Kong. Chair of the Corporate Sustainability Committee of the Company.

Marc Robert COMPAGNON
President of LF Sourcing

Aged 55. 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. Member of the Board of Advisors of the School of Business Administration at 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.

Richard Nixon DARLING
President of DSG and Vice Chairman of LF USA and LF Europe

Aged 60. President of DSG overseeing the Group's dedicated sourcing group servicing Wal-Mart globally. Also, Vice Chairman of LF USA and LF Europe responsible for external and strategic initiatives. 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. 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.

Robert Stephen LISTER
President of LF Euorpe

Aged 57. President of LF Europe managing the Group's distribution business in Europe. Chief Operating Officer of LF Europe since 2009 and became President in 2013. Before that, Group Chief Executive of Peter Black Holdings plc, a public company listed on the London Stock Exchange which was privatized in 2000 and part of its business was acquired by Li & Fung Limited in 2007. A Fellow of The Institute of Chartered Accountants in England & Wales.

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

13 August 2013
Announcement of 2013 Interim Results

10 September 2013
Payment of 2013 Interim Dividend

20 March 2014
Announcement of 2013 Final Results

14 May 2014
Record Date for 2014 Annual General Meeting

15 May 2014
Annual General Meeting

19 May 2014
Dividend Ex-entitlement for Shares

21 May 2014 to 22 May 2014 (both days inclusive)
Closure of Register of Shareholders

29 May 2014
Proposed Payment of 2013 Final Dividend

SHARE INFORMATION

Board lot size: 2,000 Shares

Shares outstanding as at 31 December 2013
8,360,398,306 Shares

Market Capitalization as at 31 December 2013
HK$83,603,983,060

Earnings per share for 2013

Interim	1.15 US cents
Full year	8.68 US cents

Dividend per share for 2013

Interim	15 HK cents
Final	34 HK cents
Full year	49 HK cents

INVESTOR RELATIONS CONTACT

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Fax:	(852) 2300 2020
e-mail:	*ir@lifung.com.hk*

Li & Fung Limited
11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

WEBSITE

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

REGISTRAR & TRANSFER OFFICES

PRINCIPAL

Appleby Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

HONG KONG BRANCH

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong*

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

* *Change of address to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.*

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. In the event of any difference, the English version prevails.
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。如中英版本有任何差異, 請以英文版本為準。

The directors submit their report together with the audited accounts for the year ended 31 December 2013.

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 43* to the accounts.

Details of the Group's turnover and contribution to operating profit for the year by segment 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 26* 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 80.

The directors declared an interim dividend of HK$0.15 (equivalent to US$0.019) per ordinary share, totalling US$160,777,000 which was paid on 10 September 2013.

The directors recommend the payment of a final dividend of HK$0.34 (equivalent to US$0.044) per share, totalling US$364,428,000.

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 27* to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2013, the reserves of the Company available for distribution as dividends amounted to US$831,078,000, comprising retained earnings of US$566,889,000 and the 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 27* 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$1,490,000.

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 2013 and for the previous nine financial years are set out in the Ten-Year Financial Summary section on page 174.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although 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

Pursuant to the terms of the Option Scheme, the Option Scheme is valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the Option Scheme had been expired on 11 May 2013, and no further options could thereafter be granted under the Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the Option Scheme prior to its expiration.

As at 31 December 2013, there were Share Options relating to 208,134,000 Shares granted by the Company representing 2.49% of the issued shares of the Company as at the date of this Report pursuant to the Option Scheme which were valid and outstanding.

Details of the Share Options granted under the Option Scheme and remain as outstanding as at 31 December 2013 are as follows:

	Number of Share Options					Exercise Price HK$	Grant Date	Exercisable Period
	As at 1/1/2013	Exercised[1]	Cancelled	Lapsed	As at 31/12/2013			
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	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	01/3/2011 – 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 1/1/2013	Exercised[1]	Cancelled	Lapsed	As at 31/12/2013	Price HK$	Grant Date	Exercisable Period
Continuous contract Employee	27,084,000	(575,000)	(1,409,000)	(25,100,000)	–	12.77	24/1/2008	01/3/2011 – 28/2/2013
	1,684,000	–	(118,000)	(1,566,000)	–	15.00	21/5/2008	01/3/2011 – 28/2/2013
	1,943,000	(242,400)	(61,200)	(1,639,400)	–	13.10	13/8/2008	01/3/2011 – 28/2/2013
	1,072,000	(532,000)	–	(540,000)	–	8.61	24/2/2009	01/3/2011 – 28/2/2013
	2,344,200	–	(524,350)	(1,819,850)	–	13.90	14/8/2009	01/3/2011 – 28/2/2013
	4,512,600	–	(44,450)	(4,468,150)	–	20.76	25/3/2010	01/3/2011 – 28/2/2013
	2,357,200	–	(252,800)	(2,104,400)	–	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
	2,033,000	–	–	–	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
	3,742,000	–	–	–	3,742,000	15.09	26/6/2012	01/5/2013 – 30/4/2015
	8,357,000	–	–	–	8,357,000	15.09	26/6/2012	01/5/2014 – 30/4/2016
	813,000	–	–	–	813,000	13.04	12/11/2012	01/5/2013 – 30/4/2015
	3,014,000	–	–	–	3,014,000	13.04	12/11/2012	01/5/2014 – 30/4/2016
Total	250,737,000	(1,349,400)	(2,409,800)	(38,843,800)	208,134,000			

NOTES:

(1) The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK$12.91.

(2) The value of 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* to the accounts. Other details of Share Options granted by the Company are set out in *Note 26* to the accounts.

Details of the Option Scheme are as follows:

(i) Purpose

The purposes of the Option Scheme are 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.

(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. No share will be available for issue under the Option Scheme as at the date of this Report as the Option Scheme has expired on 11 May 2013. 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 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 the 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 2013 are set out in *Note 43* to the accounts.

ASSOCIATED COMPANIES

Details of the Company's principal associated companies at 31 December 2013 are set out in *Note 43* to the accounts.

JOINT VENTURES

Details of the Company's principal joint venture at 31 December 2013 are set out in *Note 43* to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During 2013, 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.

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CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

(i) On 21 August 2013, the Group formed a business co-operation arrangement with Heritage Global Partners, LLC ("Heritage") and Trinity International Brands Limited, an associate of Fung Holdings (1937) Limited ("FH (1937)"), for launching Kent & Curwen brand in the United States, which is conducted under British Heritage Brands ("BHB"), a wholly-owned subsidiary of Heritage. Pursuant to the arrangement, the Group entered into a convertible promissory note purchase agreement (the "Note Purchase Agreement") with BHB to contribute a maximum aggregate amount of US$32,000,000 in 6 tranches over three years with the first and second tranches of US$6,750,000 and US$3,250,000 already paid as at 31 December 2013. For the remaining US$22,000,000, the Group is required to pay BHB by 31 August 2015, subject to satisfaction of the relevant benchmarks as prescribed under the Note Purchase Agreement. The convertible promissory note (the "Note") carries interest at 5% per annum maturing on 31 December 2027 with a right of conversion up to 51.06% equity interest of BHB during the period commencing on the earlier of either (i) the date on which sum of all payments made by the Group equals the maximum aggregate amount of the Note; or (ii) 1 January 2016, and ending on the date occurring 90 days following the date of delivery to the Group of the annual audited financial statements of BHB for the fiscal year 2018. Up to 31 December 2013, the Group has subscribed US$10 million of the Note and recognized interest income thereon of US$177,740.

(ii) On 26 December 2013, the Group entered into a sale & purchase agreement with Fung Retailing Limited for the sale of the Roots License Right at the consideration of US$18 million. After the Completion, the Group may be entitled to contingent receivables over the seven financial years ending 31 December 2020 of up to US$13.6 million in aggregate if centain turnover targets for the underlying business of the License Rights are achieved.

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

(i) Pursuant to the master agreement for leasing properties (the "Existing Master Lease Agreement") 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. In view of the expiry of the Existing Master Lease Agreement, the Company has renewed the master agreement (the "Renewal Master Lease Agreement") on 6 December 2013 for a term of three years commencing on 1 January 2014 and ending on 31 December 2016. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the Existing Master Lease Agreement and the Renewal Master Lease Agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group paid rental expenses of US$26,934,000 for the year ended 31 December 2013.

(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 2013, 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 replaced the original distribution and sale of goods agreement expiring on 31 December 2013 and covers also the scope of business contemplated under the Group's agreements (i) to engage LiFung Kids (Holdings) Limited 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 ILD 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 this new distribution and sale of goods agreement constitute continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US$60,947,000 for the year ended 31 December 2013.

(iv) On 13 August 2013, the Group entered into a management agreement with Perfect Investments B.V. ("Perfect Investments"), an associate of FH (1937), to provide management services to Perfect Investments and its subsidiaries, including Suhyang Networks Co., Ltd. and Suhyang International Co. Ltd. (collectively referred to as "Suhyang Group") for the period from 13 August 2013 to 31 December 2015. Transactions contemplated under these agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded income of US$1,890,000 for the year ended 31 December 2013.

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 of Hong Kong Limited.

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 local requirements.

Contributions to the various arrangements of 2013 were:

	US$'000
Contributions to the MPF Scheme	6,075
Contributions forfeited by employees	(2,412)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	1,565
Contributions pursuant to the statutory requirements in Korea	1,217
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	2,906
Contributions pursuant to local requirements in other overseas regions	48,893
	58,244

DIRECTORS

The Directors during the year and up to the date of this Report 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*
Margaret Leung Ko May Yee* *(appointed on 1 April 2013)*

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 William Fung Kwok Lun, Mr Allan Wong Chi Yun and Mr Benedict Chang Yew Teck will retire by rotation at the forthcoming Annual General Meeting. Dr William Fung Kwok Lun and Mr Allan Wong Chi Yun, being eligible, will offer themselves for re-election while Mr Benedict Chang Yew Teck will retire from the Board with effect from the conclusion of the forthcoming Annual General Meeting.

As stated in the 2012 Annual Report of the Company, Mr Paul Edward Selway-Swift will stand for re-election for a term of around one year at each annual general meeting since 2013. Accordingly, Mr Paul Edward Selway-Swift will also retire at the forthcoming Annual General Meeting and being eligible, will offer himself for re-election.

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence. The Nomination Committee considers that each Independent Non-executive Director is independent to the Company.

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 58 to 63.

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 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

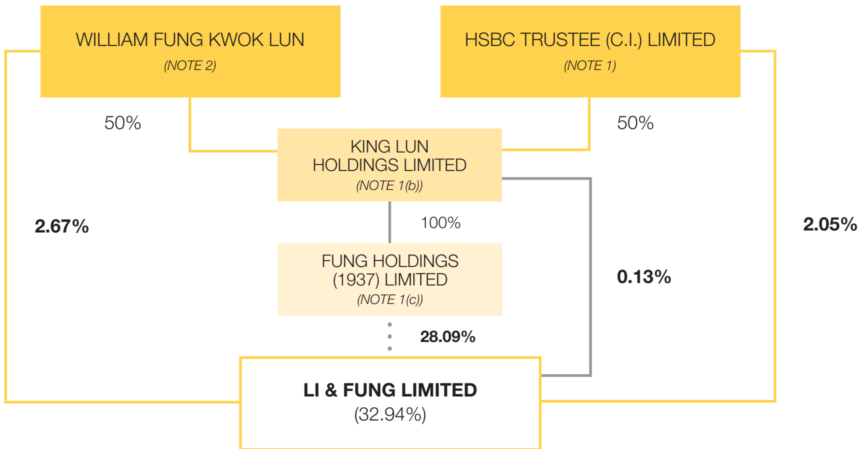
As at 31 December 2013, the Directors and chief executives of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model 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	–	2,531,080,340[1]	–	2,533,894,784	30.30%
William Fung Kwok Lun	144,342,660	108,800	2,436,254,232[2]	2,430,000[3]	2,583,135,692	30.89%
Spencer Theodore Fung*	1,408,000	–	2,531,080,340[1]	10,620,000[3]	2,543,108,340	30.41%
Bruce Philip Rockowitz	7,625,600	–	77,823,020[4]	13,321,760[5]	98,770,380	1.18%
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 deemed 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 2013,

(1) each of Dr Victor Fung Kwok King and Mr Spencer Theodore Fung was deemed to have interests in 2,531,080,340 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) 10,891,760 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 Fung Holdings (1937) Limited ("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 ("Fung Distribution").

(2) Out of 2,436,254,232 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 2,359,845,632 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) 77,823,020 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 2,430,000 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 10,891,760 underlying shares in the Company in respect of options granted by King Lun to HMHL to purchase such Shares in the Company during the period from 25 December 2013 to 24 December 2019 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 is 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 2013 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 10,891,760 underlying shares, representing 0.13% 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 2013, none of the Directors and chief executives 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 Code.

(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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, other than the interests of the Directors or chief executives 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 (10,891,760) Interest of controlled corporation (2,348,953,872)[1]	2,359,845,632	28.22%
HSBC Trustee (C.I.) Limited	Trustee	2,531,080,340[2]	30.27%
The Capital Group Companies, Inc.	Interest of controlled corporation	763,360,382	9.13%
Sun Life Financial, Inc.	Investment manager	679,135,915[3]	8.12%
Massachusetts Financial Services Company	Investment manager	679,135,915[3]	8.12%
Short Positions			
King Lun Holdings Limited	Beneficial owner	10,891,760[4]	0.13%
HSBC Trustee (C.I.) Limited	Trustee	10,891,760[5]	0.13%

NOTES:

As at 31 December 2013,

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

(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 679,135,915 Shares are duplicated in the interest of SLF.

(4) This short position represented King Lun's short position in 10,891,760 underlying shares which constituted 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 2013.

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 58 to 63.

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 30 to 45.

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 2013, 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, 20 March 2014

INDEPENDENT AUDITOR'S REPORT

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 80 to 173, which comprise the consolidated and company balance sheets as at 31 December 2013, 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 2013, 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, 20 March 2014

STATEMENT OF ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE GROUP

For the year ended 31 December 2013

	Note	2013 US$'000	2012 US$'000
Turnover	*3*	**20,745,410**	20,221,806
Cost of sales		**(17,530,953)**	(17,353,483)
Gross profit		**3,214,457**	2,868,323
Other income		**89,581**	95,472
Total margin		**3,304,038**	2,963,795
Selling and distribution expenses		**(972,946)**	(946,951)
Merchandising and administrative expenses		**(1,460,301)**	(1,505,671)
Core operating profit	*3*	**870,791**	511,173
Gain on remeasurement of contingent consideration payable	*4*	**187,400**	325,591
Amortization of other intangible assets	*4*	**(78,263)**	(64,944)
Gain on disposals of businesses/licensing right	*32(c), 37*	**5,317**	29,635
Other non-core operating expenses	*4*	**(9,421)**	(10,752)
Operating profit	*4*	**975,824**	790,703
Interest income		**18,530**	20,385
Interest expenses	*5*		
Non-cash interest expenses		**(29,118)**	(24,656)
Cash interest expenses		**(112,438)**	(110,453)
		(141,556)	(135,109)
Share of profits less losses of associated companies	*16*	**442**	638
Share of profits less losses of joint ventures	*17*	**409**	–
Profit before taxation		**853,649**	676,617
Taxation	*6*	**(98,362)**	(54,053)
Net profit for the year		**755,287**	622,564
Attributable to:			
Shareholders of the Company	*7*	**725,337**	617,416
Holders of perpetual capital securities		**30,000**	4,415
Non-controlling interests		**(50)**	733
		755,287	622,564
Earnings per share for profit attributable to the shareholders of the Company during the year	*8*		
– basic		**67.7 HK cents**	58.1 HK cents
(equivalent to)		**8.68 US cents**	7.45 US cents
– diluted		**67.7 HK cents**	58.1 HK cents
(equivalent to)		**8.68 US cents**	7.44 US cents

Details of dividends to Shareholders of the Company are set out in *Note 9*. The notes on pages 88 to 173 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE GROUP

For the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Net profit for the year	**755,287**	622,564
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Remeasurements from post-employment benefits recognized in reserve, net of tax	**4,440**	(1,889)
Total items that will not be reclassified to profit or loss	**4,440**	(1,889)
Items that may be reclassified subsequently to profit or loss		
Currency translation differences*	**11,195**	48,443
Net fair value loss on cash flow hedges, net of tax	**(398)**	(10,489)
Net fair value gain on available-for-sale financial assets, net of tax	**71**	112
Total items that may be reclassified subsequently to profit or loss	**10,868**	38,066
Total other comprehensive income for the year, net of tax	**15,308**	36,177
Total comprehensive income for the year	**770,595**	658,741
Attributable to:		
Shareholders of the Company	**741,260**	653,210
Holders of perpetual capital securities	**30,000**	4,415
Non-controlling interests	**(665)**	1,116
Total comprehensive income for the year	**770,595**	658,741

* *Exchange differences resulting from translation of the results and financial positions of the Group entities with functional currencies other than the Group's presentation currency.*

The notes on pages 88 to 173 are an integral part of these consolidated accounts.

CONSOLIDATED BALANCE SHEET OF THE GROUP

As at 31 December 2013

	Note	As at 31 December 2013 US$'000	2012 US$'000 (Restated)	As at 1 January 2012 US$'000 (Restated)
Non-current assets				
Intangible assets	*12*	**7,608,556**	7,058,406	6,525,999
Property, plant and equipment	*13*	**439,599**	418,624	325,432
Prepaid premium for land leases	*14*	**2,789**	3,073	3,144
Associated companies	*16*	**7,598**	7,571	7,015
Joint ventures	*17*	**14,515**	–	–
Available-for-sale financial assets	*18*	**3,669**	60,598	70,574
Other receivables and deposits	*22*	**15,623**	19,949	12,537
Deferred tax assets	*31*	**75,364**	69,739	26,925
		8,167,713	7,637,960	6,971,626
Current assets				
Inventories	*19*	**1,100,486**	939,078	1,035,788
Due from related companies	*20*	**67,670**	92,444	16,948
Trade and bills receivable	*22*	**2,220,841**	2,242,678	2,004,542
Other receivables, prepayments and deposits	*22*	**446,520**	425,390	454,310
Derivative financial instruments	*21*	**2,664**	–	13,743
Cash and bank balances	*23*	**459,559**	680,379	426,240
		4,297,740	4,379,969	3,951,571
Current liabilities				
Due to related companies	*20*	**14,682**	8,484	12,675
Trade and bills payable	*24*	**2,552,495**	2,458,128	2,336,991
Accrued charges and sundry payables	*24*	**837,790**	827,460	734,213
Purchase consideration payable for acquisitions	*29*	**409,512**	329,570	325,476
Taxation		**127,035**	92,290	103,006
Derivative financial instruments	*21*	**8,275**	4,821	–
Bank advances for discounted bills	*22*	**38,190**	35,666	40,298
Short-term bank loans	*25*	**94,145**	117,519	111,936
Bank overdrafts		**–**	–	225
		4,082,124	3,873,938	3,664,820
Net current assets		**215,616**	506,031	286,751
Total assets less current liabilities		**8,383,329**	8,143,991	7,258,377

	Note	As at 31 December **2013** **US$'000**	2012 US$'000 (Restated)	As at 1 January 2012 US$'000 (Restated)
Financed by:				
Share capital	*26*	**13,398**	13,396	12,987
Reserves		**4,658,811**	4,437,301	3,558,588
Proposed dividend		**364,428**	171,495	354,611
		5,023,239	4,608,796	3,913,199
Shareholders' funds attributable to the Company's shareholders		**5,036,637**	4,622,192	3,926,186
Perpetual capital securities	*28*	**503,000**	504,415	–
Non-controlling interests		**10,048**	10,713	4,813
Total equity		**5,549,685**	5,137,320	3,930,999
Non-current liabilities				
Long term notes	*29*	**1,254,915**	1,255,461	1,256,007
Purchase consideration payable for acquisitions	*29*	**988,487**	1,318,705	1,646,664
Other long-term liabilities	*29*	**471,779**	332,651	348,351
Post-employment benefit obligations	*30*	**24,330**	28,770	23,480
Deferred tax liabilities	*31*	**94,133**	71,084	52,876
		2,833,644	3,006,671	3,327,378
		8,383,329	8,143,991	7,258,377

William Fung Kwok Lun
Director

Bruce Philip Rockowitz
Director

The notes on pages 88 to 173 are an integral part of these consolidated accounts.

BALANCE SHEET OF THE COMPANY

As at 31 December 2013

	Note	As at 31 December 2013 US$'000	2012 US$'000
Interests in subsidiaries	*15*	**1,339,604**	1,339,604
Current assets			
Due from related companies	*20*	**5,001,637**	4,728,264
Other receivables, prepayments and deposits	*22*	**313**	250
Cash and bank balances	*23*	**110**	1,553
		5,002,060	4,730,067
Current liabilities			
Accrued charges and sundry payables	*24*	**9,715**	10,406
		9,715	10,406
Net current assets		**4,992,345**	4,719,661
Total assets less current liabilities		**6,331,949**	6,059,265
Financed by:			
Share capital	*26*	**13,398**	13,396
Reserves	*27(b)*	**4,196,208**	4,114,498
Proposed dividend	*27(b)*	**364,428**	171,495
		4,560,636	4,285,993
Shareholders' funds		**4,574,034**	4,299,389
Perpetual capital securities	*28*	**503,000**	504,415
		5,077,034	4,803,804
Non-current liabilities			
Long-term notes	*29*	**1,254,915**	1,255,461
		6,331,949	6,059,265

William Fung Kwok Lun
Director

Bruce Philip Rockowitz
Director

The notes on pages 88 to 173 are an integral part of these consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE GROUP

For the year ended 31 December 2013

	Attributable to shareholders of the Company							
	Share capital US$'000 *Note 26*	**Share premium US$'000**	**Other reserves US$'000** *Note 27(a)*	**Retained earnings US$'000**	**Total US$'000**	**Perpetual capital securities US$'000** *Note 28*	**Non-controlling interests US$'000**	**Total equity US$'000**
Balance at 1 January 2013, as previously reported	**13,396**	**3,697,012**	**(3,164)**	**922,555**	**4,629,799**	**504,415**	**10,713**	**5,144,927**
Impact of adoption of HKAS 19 (2011)	**–**	**–**	**(9,340)**	**1,733**	**(7,607)**	**–**	**–**	**(7,607)**
Balance at 1 January 2013, as restated	**13,396**	**3,697,012**	**(12,504)**	**924,288**	**4,622,192**	**504,415**	**10,713**	**5,137,320**
Comprehensive income								
Profit or loss	**–**	**–**	**–**	**725,337**	**725,337**	**30,000**	**(50)**	**755,287**
Other comprehensive income								
Currency translation differences	**–**	**–**	**11,810**	**–**	**11,810**	**–**	**(615)**	**11,195**
Net fair value gain on available-for-sale financial assets, net of tax	**–**	**–**	**71**	**–**	**71**	**–**	**–**	**71**
Net fair value loss on cash flow hedges, net of tax	**–**	**–**	**(398)**	**–**	**(398)**	**–**	**–**	**(398)**
Remeasurements from post-employment benefits recognized in reserve	**–**	**–**	**4,440**	**–**	**4,440**	**–**	**–**	**4,440**
Total other comprehensive income	**–**	**–**	**15,923**	**–**	**15,923**	**–**	**(615)**	**15,308**
Total comprehensive income	**–**	**–**	**15,923**	**725,337**	**741,260**	**30,000**	**(665)**	**770,595**
Transactions with owners								
Employee share option scheme:								
– value of employee services	**–**	**–**	**3,522**	**–**	**3,522**	**–**	**–**	**3,522**
– proceeds from shares issued	**2**	**1,933**	**–**	**–**	**1,935**	**–**	**–**	**1,935**
– transfer to share premium	**–**	**531**	**(531)**	**–**	**–**	**–**	**–**	**–**
Distribution to holders of perpetual capital securities	**–**	**–**	**–**	**–**	**–**	**(31,415)**	**–**	**(31,415)**
Transfer to capital reserve	**–**	**–**	**93**	**(93)**	**–**	**–**	**–**	**–**
2012 final dividend paid	**–**	**–**	**–**	**(171,495)**	**(171,495)**	**–**	**–**	**(171,495)**
2013 interim dividend paid	**–**	**–**	**–**	**(160,777)**	**(160,777)**	**–**	**–**	**(160,777)**
Total transactions with owners	**2**	**2,464**	**3,084**	**(332,365)**	**(326,815)**	**(31,415)**	**–**	**(358,230)**
Balance at 31 December 2013	**13,398**	**3,699,476**	**6,503**	**1,317,260**	**5,036,637**	**503,000**	**10,048**	**5,549,685**

For the year ended 31 December 2013

	Attributable to shareholders of the Company					Perpetual capital securities US$'000 Note 28	Non-controlling interests US$'000	Total equity US$'000
	Share capital US$'000 Note 26	Share premium US$'000	Other reserves US$'000 Note 27(a)	Retained earnings US$'000	Total US$'000			
Balance at 1 January 2012, as previously reported	12,987	3,114,097	(27,439)	834,148	3,933,793	–	4,813	3,938,606
Impact of adoption of HKAS 19 (2011)	–	–	(9,340)	1,733	(7,607)	–	–	(7,607)
Balance at 1 January 2012, as restated	12,987	3,114,097	(36,779)	835,881	3,926,186	–	4,813	3,930,999
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)
Remeasurements 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, as restated	13,396	3,697,012	(12,504)	924,288	4,622,192	504,415	10,713	5,137,320

The notes on pages 88 to 173 are an integral part of these consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

For the year ended 31 December 2013

	Note	2013 US$'000	2012 US$'000
Operating activities			
Net cash inflow generated from operations	32(a)	**1,008,701**	665,183
Hong Kong profits tax paid		**(9,878)**	(15,540)
Overseas taxation paid		**(56,050)**	(63,522)
Net cash inflow from operating activities		**942,773**	586,121
Investing activities			
Purchases of property, plant and equipment	13	**(124,638)**	(175,806)
Payments for computer software and system development costs	12	**(21,751)**	(12,026)
Purchases of intangible assets		**(30,000)**	–
Settlement of consideration payable for prior years acquisitions of businesses		**(408,853)**	(358,755)
Acquisitions of businesses	33	**(178,061)**	(292,441)
Proceeds from disposal of businesses/licensing right	32(c)	**9,589**	41,657
Proceeds from disposal of property, plant and equipment		**275**	3,440
Interest income		**18,530**	20,385
Repayment of debt security	18	**57,000**	10,000
Investment in joint ventures		**(7,836)**	–
Dividends received from associated companies	16	**516**	124
Addition of premium for land leases	14	**(71)**	–
Net cash outflow from investing activities		**(685,300)**	(763,422)
Net cash inflow/(outflow) before financing activities		**257,473**	(177,301)
Financing activities			
Interest paid		**(112,438)**	(110,453)
Net proceeds from issuance of shares upon exercise of share options	32(b)	**1,935**	69,409
Issue of shares upon a private placing	32(b)	**–**	498,260
Net proceeds from issuance of perpetual capital securities, net of transaction cost		**–**	495,835
Distributions made to holders of perpetual capital securities		**(31,415)**	–
Dividends paid		**(332,272)**	(524,829)
Net (repayment)/drawdown of bank loans	32(b)	**(6,734)**	94
Net cash (outflow)/inflow from financing activities		**(480,924)**	428,316
(Decrease)/increase in cash and cash equivalents		**(223,451)**	251,015
Cash and cash equivalents at 1 January		**680,379**	426,015
Effect of foreign exchange rate changes		**2,631**	3,349
Cash and cash equivalents at 31 December		**459,559**	680,379
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	23	**459,559**	680,379

The notes on pages 88 to 173 are an integral part of these consolidated accounts.

NOTES TO THE 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in *Note 2*.

(a) New standards, new interpretation and amendments to existing standards adopted by the Group

The following new standards, new interpretation and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2013:

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

Except as described below, the application of the above new or revised HKFRSs in the current year has had no material effect on the Group's reported financial performance and position for the current and prior years and/or disclosures set out in these consolidated accounts.

HKFRS 13	Fair Value Measurement

HKFRS 13 establishes a single source of guidance under HKFRS for all fair value measurements. HKFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under HKFRS when fair value is required or permitted. The application of HKFRS 13 has not materially impacted the fair value measurements carried out by the Group.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(a) New standards, new interpretation and amendments to existing standards adopted by the Group (continued)

HKFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including HKFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in annual financial statements for financial instruments; accordingly, the Group provides these disclosures in *Note 40* to the accounts.

HKAS 1 (amendment)	Presentation of financial statements

The amendments to HKAS 1 introduce a grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The adoption of these amendments only affected presentation and had no impact on the Group's results of operations or financial position.

HKAS 19 (2011)	Employee Benefits

HKAS 19 (2011) amends the accounting for employment benefits. The Group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the Group has been in the following areas:

(i) There is a new term "remeasurements". This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. They are recognized in other comprehensive income and not recycled to income statement. The "corridor" method and the option to spread or recognize immediately in the income statement are no longer available. This change has resulted in an increase in post-employment obligations and deferred tax assets and decrease in reserves at 1 January 2012 and 31 December 2012 by US$10,384,000, US$2,777,000 and US$7,607,000 respectively. The standard also requires the entity to present all actuarial gains and losses previously recognized in profit and loss account in other comprehensive income. This has resulted in no material impact to either the profit and loss account or comprehensive income for the year ended 31 December 2012. The change has resulted in an increase in retained earnings at 1 January 2012 and 31 December 2012 by US$897,000 with a decrease in other reserves of same amount.

(ii) The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate; this continues to reflect the yield on high-quality corporate bonds. This has no effect on total comprehensive income as the charge in profit and loss account is offset by an equivalent amount in other comprehensive income. This change has resulted in an increase in retained earnings at 1 January 2012 of US$836,000 with a decrease in other reserves of same amount. The effects of the change in the profit and loss account charge for the year ended 31 December 2012 were immaterial.

(iii) 'Post-employment benefit obligation' as previously reported has been restated at the reporting dates to reflect the effect of the above. Amounts have been restated as at 1 January 2012 as US$23,480,000 (previously US$13,096,000); and 31 December 2012 as US$28,770,000 (previously US$18,386,000).

(iv) The effects of the change in accounting policy has no effect on the cash flow statement and immaterial effect on earnings per share.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(b) New standards, new interpretation 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 interpretation and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods, but the Group has not early adopted them:

HKFRS 10, 12 and 27 (2011) (amendment)	Investment entities[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
HK (IFRIC) – Int 21	Levis[1]
HKAS 19 (2011) (amendment)	Defined benefit plans: Employee contributions[1]
HKFRS 7 and 9 (amendment)	Mandatory effective date and transition disclosures[2]
HKFRS 9	Financial instruments[2]
HKAS 39 (amendment)	Financial instruments: Recognition and Measurement – Novation of derivatives[1]
HKFRS 14	Regulatory Deferral Accounts[3]

NOTES:

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 January 2015
3 Effective for annual periods beginning on or after 1 January 2016

The Group is in the process of making an assessment of the impact of these new standards, new interpretation 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 2013.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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 aggregate of 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognized 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 recognized 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 recognized 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.

(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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 CONSOLIDATION (CONTINUED)

(c) Associated companies (continued)

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 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 interests 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.

(d) Joint ventures

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2012. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined it to be a joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in joint venture is initially recognized at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 and assessing performance of the operating segments, has been identified for making strategic decisions.

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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(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 recognized 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 recognized 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(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.

1.6 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/associated company/joint venture at the date of acquisition *(Note 1.2(a))*. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures are included in interests in associated accompanies and joint ventures and are 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 or groups of units to which the goodwill is allocated represents 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 recognized 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.6 INTANGIBLE ASSETS (CONTINUED)

(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, and 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.

1.7 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES, JOINT VENTURES 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 suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associated companies or joint ventures 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*).

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.8 FINANCIAL ASSETS (CONTINUED)

Classification (continued)

(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.

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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.9 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets classified as loans and receivables 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 classified as loans and receivables 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, associates and joint ventures 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.15 CURRENT AND DEFERRED TAX (CONTINUED)

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.

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 arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in the income statement.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.16 EMPLOYEE BENEFITS (CONTINUED)

(c) Post employment benefit obligations (continued)

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.

(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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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 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 excluding share of results of associated companies and joint ventures, interest income, interest expenses, tax, costs, material gains or losses which are of capital nature or non operational related, acquisition related cost. This also excludes gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items.

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.

A 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.21 REVENUE RECOGNITION (CONTINUED)

Interest income is recognized 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 recognized using the original effective interest rate.

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

Other income incidental to normal operating activities is recognized when the services are rendered or the right to receive payment is established.

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 amortized 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.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.24 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(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.

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

Derivatives financial instruments recognized at fair value through profit or loss include certain derivative instruments that do not qualify for hedge accounting and conversion right embedded in convertible promissory note *(Note 21)*. Both are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair values of derivative financial 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 may issue shares to escrow agents for the settlement of acquisition consideration payables. 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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.28 FINANCIAL GUARANTEE CONTRACT

Financial guarantees are initially recognized 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 recognized 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) 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.

(d) 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 the 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 subsidiaries/business 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) for the Group, changes in the fair values of contingent consideration are recognized in goodwill.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) 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 may 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 for acquisitions made after 2010 would be US$127 million, and the resulting aggregate impact to the goodwill on remeasurement of contingent consideration payable for acquisitions made prior to 1 January 2010 would be US$12 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.

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 and joint ventures, interest income, interest expenses and tax, but excludes material gains or losses which are of capital nature or non-recurring nature, and other recurring items such as 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 2013					
Turnover	16,307,973	526,259	6,707,784	(2,796,606)	20,745,410
Total margin	1,497,602	194,489	1,611,947		3,304,038
Operating costs	(958,164)	(158,683)	(1,316,400)		(2,433,247)
Core operating profit	539,438	35,806	295,547		870,791
Gain on remeasurement of contingent consideration payable					187,400
Amortization of other intangible assets					(78,263)
Gain on disposal of businesses/licensing right					5,317
Other non-core operating expenses					(9,421)
Operating profit					975,824
Interest income					18,530
Interest expenses					
Non-cash interest expenses					(29,118)
Cash interest expenses					(112,438)
					(141,556)
Share of profits less losses of associated companies					442
Share of profits less losses of joint ventures					409
Profit before taxation					853,649
Taxation					(98,362)
Net profit for the year					755,287
Depreciation & amortization	59,466	10,588	248,916		318,970
31 December 2013					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	2,565,134	533,590	4,989,956		8,088,680

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
Amortization of other intangible assets					(64,944)
Gain on disposal of businesses					29,635
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)	2,361,712	511,304	4,634,607		7,507,623

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 assets and deferred tax assets) As at 31 December	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
United States of America	**12,899,567**	12,648,536	**4,944,414**	4,605,737
Europe	**3,795,543**	3,761,258	**1,591,060**	1,458,218
China	**1,420,849**	1,211,809	**610,412**	483,619
Rest of Asia	**1,109,104**	1,198,311	**608,445**	646,562
Canada	**604,826**	646,775	**137,699**	161,476
Australasia	**436,480**	342,561	**88,845**	64,813
Central and Latin America	**367,186**	298,425	**84,554**	65,094
South Africa and Middle East	**111,855**	114,131	**23,251**	22,104
	20,745,410	20,221,806	**8,088,680**	7,507,623

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

	2013 US$'000	2012 US$'000
Softgoods	**12,551,901**	12,647,053
Hardgoods	**7,641,030**	7,127,260
Logistics	**552,479**	447,493
	20,745,410	20,221,806

For the year ended 31 December 2013, approximately 14.1% (2012: 15.0%) of the Group's turnover is derived from a single external customer, of which 13.0% (2012: 13.5%) and 1.1% (2012: 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:

	2013 US$'000	2012 US$'000
Crediting		
Gain on remeasurement of contingent consideration payable *(Note)**	**187,400**	325,591
Gain on disposal of businesses/licensing right *(Note 32(c))**	**5,317**	29,635
Charging		
Cost of inventories sold	**17,530,953**	17,353,483
Amortization of computer software and system development costs *(Note 12)*	**10,836**	7,633
Amortization of brand licenses and distribution right *(Note 12)*	**133,612**	126,503
Amortization of other intangible assets *(Note 12)**	**78,263**	64,944
Amortization of prepaid premium for land leases *(Note 14)*	**144**	178
Depreciation of property, plant and equipment *(Note 13)*	**96,115**	86,118
Loss on disposal of property, plant and equipment, net	**3,959**	1,504
Net provision for impairment of available-for-sale financial assets *(Note 18)*	**–**	88
Operating leases rental in respect of land and building	**223,091**	212,309
Provision for impaired receivables *(Note 22)*	**10,921**	12,373
Staff costs including directors' emoluments *(Note 10)*	**1,281,037**	1,324,025
Business acquisition-related costs *(Note 33)**	**9,421**	10,752
Net exchange losses	**4,816**	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, a gain of approximately US$187 million was recognized. Among the total remeasurement gain, approximately US$145 million was adjustments to earn-up consideration. The revised provision 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 recognized 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:

	2013 US$'000	2012 US$'000
Audit services	**5,600**	5,286
Non-audit services		
– due diligence reviews on acquisitions	**1,758**	2,538
– taxation services	**2,958**	2,401
– others	**265**	149
Total remuneration to auditors charged to consolidated profit and loss account	**10,581**	10,374

NOTE: Of the above audit and non-audit services fees, US$5,554,000 (2012: US$5,222,000) and US$4,981,000 (2012: US$5,088,000) respectively are payable to the Company's auditor.

5 INTEREST EXPENSES

	2013 US$'000	2012 US$'000
Non-cash interest expenses on purchase consideration payable for acquisitions, brand licenses payable and long-term notes		
– wholly repayable within five years	**28,460**	24,058
– not wholly repayable within five years	**658**	598
Cash interest on bank loans and overdrafts, long-term notes		
– wholly repayable within five years	**73,063**	71,078
– not wholly repayable within five years	**39,375**	39,375
	141,556	135,109

6 TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 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:

	2013 US$'000	2012 US$'000
Current taxation		
– Hong Kong profits tax	**12,948**	12,978
– Overseas taxation	**74,210**	57,438
Under/(over)provision in prior years	**11,862**	(1,960)
Deferred taxation *(Note 31)*	**(658)**	(14,403)
	98,362	54,053

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:

	2013 %	2012 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(3.9)**	(2.3)
Income net of expenses not subject to taxation	**(1.5)**	(7.6)
Under/(over)provision in prior years	**1.4**	(0.3)
Utilization of previously unrecognized tax losses	**(2.0)**	(0.3)
Unrecognized tax losses	**1.0**	2.0
Effective tax rate	**11.5**	8.0

6 TAXATION (CONTINUED)

As at the date of this annual report, the Group has disputes with the Hong Kong Inland Revenue ("HKIR") Department involving additional tax assessments amounting to approximately US$249 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 2012/13.

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 totaling 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.

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.

Regarding 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 at 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$206 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 at 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

Profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of US$601,460,000 (2012: US$322,606,000) *(Note 27)*.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$725,337,000 (2012: US$617,416,000) and on the weighted average number of 8,356,237,000 (2012: 8,287,162,000) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of 8,356,237,000 (2012: 8,287,162,000) ordinary shares in issue by 34,000 (2012: 7,633,000) to assume conversion or all dilutive potential ordinary shares granted under the Company's Option Scheme. For the determination 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

	2013 US$'000	2012 US$'000
Interim, paid, of HK$0.15 (equivalent to US$0.019) (2012: HK$0.15 (equivalent to US$0.019)) per ordinary share	**160,777**	160,721
Final, proposed, of HK$0.34 (equivalent to US$0.044) (2012: HK$0.16 (equivalent to US$0.021)) per ordinary share	**364,428**	171,495
	525,205	332,216

At a meeting held on 20 March 2014, the Directors proposed a final dividend of HK$0.34 (equivalent to US$0.044) 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 2014 *(Note 27)*.

10 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2013 US$'000	2012 US$'000
Salaries and bonuses	**1,135,553**	1,179,166
Staff benefits	**83,706**	87,556
Pension costs of defined contribution plans *(Note)*	**55,912**	51,223
Employee share option expenses	**3,522**	2,248
Pension costs of defined benefits plans *(Note 30)*	**2,332**	3,610
Long service payments	**12**	222
	1,281,037	1,324,025

NOTE: Forfeited contributions totalling US$2,412,000 (2012: US$2,237,000) 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 2013 is set out below:

			2013			
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	**39**	**615**	**1,878**	**–**	**2**	**2,534**
Bruce Philip Rockowitz	**21**	**572**	**2,458**	**32**	**2**	**3,085**
Spencer Theodore Fung	**21**	**592**	**426**	**–**	**2**	**1,041**
Non-executive Directors						
Victor Fung Kwok King	**47**	**–**	**–**	**–**	**–**	**47**
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**
Margaret Leung Ko May Yee	**25**	**–**	**–**	**–**	**–**	**25**

NOTES:

(i) The discretionary bonuses paid in 2013 were in relation to performance and services for 2012.

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

			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.

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

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

During the year, no Share (2012: 802,000) was issued to Directors of the Company pursuant to exercise of the Share Options under the Option Scheme.

As at 31 December 2013, certain Directors held the following Share Options to acquire Shares of the Company:

Number of Share Options	Exercise Price HK$	Exercisable Period
1,440,000 (2012: 1,440,000)	20.21	01/5/2012 – 30/4/2015
1,440,000 (2012: 1,440,000)	20.21	01/5/2013 – 30/4/2015
3,600,000 (2012: 3,600,000)	20.21	01/5/2014 – 30/4/2016
1,000,000 (2012: 1,000,000)	14.50	01/5/2013 – 30/4/2015
1,000,000 (2012: 1,000,000)	14.50	01/5/2014 – 30/4/2016
1,000,000 (2012: 1,000,000)	14.50	01/5/2015 – 30/4/2017
1,000,000 (2012: 1,000,000)	14.50	01/5/2016 – 30/4/2018
1,000,000 (2012: 1,000,000)	14.50	01/5/2017 – 30/4/2019
1,000,000 (2012: 1,000,000)	14.50	01/5/2018 – 30/4/2020
1,000,000 (2012: 1,000,000)	14.50	01/5/2019 – 30/4/2021
1,000,000 (2012: 1,000,000)	14.50	01/5/2020 – 30/4/2022
1,000,000 (2012: 1,000,000)	14.50	01/5/2021 – 30/4/2023

The closing market price of the Shares as at 31 December 2013 was HK$10.

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 (2012: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2012: three) who were senior management during the year are as follows:

	2013 US$'000	2012 US$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,189**	4,025
Discretionary bonuses	**8,095**	7,377
Contributions to pension scheme	**5**	5
	12,289	11,407

	Number of individuals	
Emolument bands	**2013**	2012
HK$19,000,001 – HK$19,500,000 (approximately US$2,436,001 – US$2,500,000)	**–**	1
HK$21,000,001 – HK$21,500,000 (approximately US$2,692,001 – US$2,756,000)	**1**	–
HK$29,000,001 – HK$29,500,000 (approximately US$3,718,001 – US$3,782,000)	**1**	–
HK$30,000,001 – HK$30,500,000 (approximately US$3,846,001 – US$3,910,000)	**–**	1
HK$39,000,001 – HK$39,500,000 (approximately US$5,000,001 – US$5,064,000)	**–**	1
HK$44,500,001 – HK$45,000,000 (approximately US$5,705,001 – US$5,769,000)	**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:

	Number of individuals	
Emolument bands	**2013**	2012
Below US$1,000,000	**4**	2
US$1,000,001 – US$1,500,000	**5**	4
US$1,500,001 – US$2,000,000	**–**	1
US$2,000,001 – US$2,500,000	**–**	1

12 INTANGIBLE ASSETS

				The Group					
				Other intangible assets					
	Goodwill US$'000	Brand licenses and distribution right US$'000	Computer software and system development costs US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Patent, trademarks and brandnames US$'000	Others US$'000	Total US$'000
At 1 January 2013									
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
Year ended 31 December 2013									
Opening net book amount	6,019,569	249,835	45,940	74,577	415,833	96,983	154,745	924	7,058,406
Exchange differences	20,685	383	13	–	1,071	466	519	–	23,137
Acquisition of businesses/subsidiaries *(Note 33)*	353,994	515	30	–	67,518	14,937	10,335	1,334	448,663
Adjustments to purchase consideration payable for acquisitions and net asset value [i]	(4,414)	–	270	–	470	3,064	6,797	–	6,187
Adjustments to purchase consideration payable for acquisitions completed prior to 1 January 2010 [ii]	867	–	–	–	–	–	–	–	867
Additions	–	287,674	21,751	–	–	–	–	–	309,425
Disposal of businesses/licensing right *(Note 32(c))*	–	(11,531)	–	–	–	–	–	–	(11,531)
Disposals	–	(3,887)	–	–	–	–	–	–	(3,887)
Amortization	–	(133,612)	(10,836)	(5,393)	(47,825)	(11,415)	(13,234)	(396)	(222,711)
Closing net book amount	6,390,701	389,377	57,168	69,184	437,067	104,035	159,162	1,862	7,608,556
At 31 December 2013									
Cost	6,390,701	859,835	93,848	93,967	576,284	145,032	199,249	3,534	8,362,450
Accumulated amortization	–	(470,458)	(36,680)	(24,783)	(139,217)	(40,997)	(40,087)	(1,672)	(753,894)
Net book amount	6,390,701	389,377	57,168	69,184	437,067	104,035	159,162	1,862	7,608,556

12 INTANGIBLE ASSETS (CONTINUED)

	The Group								
				Other intangible assets					
	Goodwill US$'000	Brand licenses and distribution right US$'000	Computer software and system development costs US$'000	Buying agency and license agreements US$'000	Customer relationships US$'000	Licensor relationships US$'000	Patent, 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	428,935	435	–	–	72,180	9,128	28,301	–	538,979
Adjustments to purchase consideration payable for acquisitions and net asset value [i]	(49,839)	6,320	–	–	4,000	–	3,000	–	(36,519)
Adjustments to purchase consideration payable 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 32(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

i These are adjustments to purchase consideration payable for acquisitions and net asset values related to certain acquisitions of businesses in the prior year, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, 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 payable for acquisitions of US$37,019,000 (2012:US$53,681,000) and other assets/liabilities of approximately US$43,206,000 (2012: US$17,162,000).

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	
	2013	2012
	US$'000	US$'000
Trading Network	**2,152,253**	1,915,799
Logistics Network	**470,383**	460,300
Distribution Network	**3,768,065**	3,643,470
	6,390,701	6,019,569

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 reviews have 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 2012						
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	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 32(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
Year ended 31 December 2013						
Opening net book amount	**18,053**	**166,114**	**120,624**	**109,584**	**4,249**	**418,624**
Exchange differences	**(507)**	**(424)**	**(232)**	**(2,191)**	**(66)**	**(3,420)**
Acquisition of businesses *(Note 33)*	**–**	**479**	**556**	**449**	**3,913**	**5,397**
Adjustment to purchase consideration payable for acquisitions and net asset value*	**–**	**–**	**(750)**	**29**	**–**	**(721)**
Additions	**2,544**	**67,525**	**30,220**	**21,196**	**3,153**	**124,638**
Disposal of businesses *(Note 32(c))*	**–**	**–**	**(1,452)**	**(3,111)**	**(7)**	**(4,570)**
Disposals	**(1,414)**	**(1,523)**	**(1,210)**	**–**	**(87)**	**(4,234)**
Depreciation	**(1,472)**	**(35,507)**	**(38,194)**	**(17,886)**	**(3,056)**	**(96,115)**
Closing net book amount	**17,204**	**196,664**	**109,562**	**108,070**	**8,099**	**439,599**
At 31 December 2013						
Cost	**19,179**	**339,070**	**280,932**	**155,695**	**12,457**	**807,333**
Accumulated depreciation	**(1,975)**	**(142,406)**	**(171,370)**	**(47,625)**	**(4,358)**	**(367,734)**
Net book amount	**17,204**	**196,664**	**109,562**	**108,070**	**8,099**	**439,599**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of US$68,183,000 (2012: US$58,849,000), US$17,571,000 (2012: US$17,778,000) and US$10,361,000 (2012: US$9,491,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses, and cost of sales respectively.

At 31 December 2013, land and buildings of US$3,589,000 (2012: US$3,995,000) were pledged as security for the Group's short-term bank loans *(Note 25)*.

* *Adjustments to net asset values related to certain acquisitions of businesses/subsidiaries in prior years, that 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 acquisitions date.*

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	
	2013	2012
	US$'000	US$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,375**	2,628
Leases of over 50 years	**414**	445
	2,789	3,073

	The Group	
	2013	2012
	US$'000	US$'000
Beginning of the year	**3,073**	3,144
Addition	**71**	–
Amortization	**(144)**	(178)
Exchange differences	**(211)**	107
End of the year	**2,789**	3,073

Amortization of US$144,000 (2012: US$176,000) and nil (2012: US$2,000) has been expensed in selling and distribution expenses, and merchandising and administrative expenses respectively.

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2013	2012
	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 in *Note 43*.

16 ASSOCIATED COMPANIES

	The Group	
	2013	2012
	US$'000	US$'000
Beginning of the year	**7,571**	7,015
Share of profits less losses for the year of associated companies	**442**	638
Dividend received	**(516)**	(124)
Exchange differences	**101**	42
Total interest in associated companies	**7,598**	7,571

Details of principal associated companies are set out in *Note 43*.

17 JOINT VENTURES

	The Group	
	2013	2012
	US$'000	US$'000
Beginning of the year	**–**	–
Additions	**14,106**	–
Share of profits less losses of joint ventures	**409**	–
Total interest in joint ventures	**14,515**	–

Details of principal joint venture is set out in *Note 43*.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2013 **US$'000**	2012 US$'000
Beginning of the year	**60,598**	70,574
Repayment of debt security	**(57,000)**	(10,000)
Fair value gains on available-for-sale financial assets *(Note 27)*	**71**	112
Net impairment provision	**–**	(88)
End of the year	**3,669**	60,598

Available-for-sale financial assets include the following:

	The Group	
	2013 **US$'000**	2012 US$'000
Unlisted securities:		
– Debt security *(Note)*	**–**	57,000
– Others	**3,669**	3,598
	3,669	60,598

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 fair value of the Promissory Note is determined with discounted cash flow analysis based on the prevailing required rates of return at the balance sheet date of certain comparable debt instruments in the market. In 2013, the entire balance was fully settled.

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

	The Group	
	2013 **US$'000**	2012 US$'000
HK dollar	**3,669**	3,598
US dollar	**–**	57,000
	3,669	60,598

19 INVENTORIES

	The Group	
	2013 **US$'000**	2012 US$'000
Finished goods	**976,797**	782,466
Raw materials	**123,689**	156,612
	1,100,486	939,078

20 DUE FROM/(TO) RELATED COMPANIES

	The Group		The Company	
	2013 **US$'000**	2012 US$'000	**2013** **US$'000**	2012 US$'000
Due from:				
Subsidiaries	**–**	–	**5,001,637**	4,728,264
Associated companies	**9,615**	11,499	**–**	–
Other related companies	**58,055**	80,945	**–**	–
	67,670	92,444	**5,001,637**	4,728,264
Due to:				
Associated companies	**27**	–	**–**	–
Other related companies	**14,655**	8,484	**–**	–
	14,682	8,484	**–**	–

The amounts are unsecured, interest free and repayable on demand, except for amounts due from an associated company amounting to US$9,371,000 (2012: US$11,226,000) 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.

21 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2013 **US$'000**	2012 US$'000
Conversion right embedded in convertible promissory note *(Note 40)*	**2,664**	–
Forward foreign exchange contracts – liabilities *(Note 40)*	**8,275**	4,821

The conversion right embedded in convertible promissory note referred to the Group's investment in an unlisted convertible promissory note issued by British Heritage Brands ("BHB") mentioned in *Note 37*.

21 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Losses in equity of US$1,413,000 (2012: US$1,015,000) on forward foreign exchange contracts as of 31 December 2013 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 27)*.

For the years ended 31 December 2013 and 2012, no material amounts were recognized in the profit or loss account arising from ineffective cash flow hedges.

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Trade and bills receivable – net	**2,220,841**	2,242,678	**–**	–
Other receivables, prepayments and deposits	**462,143**	445,339	**313**	250
	2,682,984	2,688,017	**313**	250
Less: non-current portion				
Other receivables *(Note)*	**(7,326)**	–	**–**	–
Deposits	**(8,297)**	(19,949)	**–**	–
	2,667,361	2,668,068	**313**	250

NOTE: The balance represents the Group's investment in an unlisted convertible promissory note issued by BHB mentioned in *Note 37*.
The convertible promissory note is denominated in US dollars.
The effective interest rate of the convertible promissory note at the balance sheet date was 5.38%.

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 2013.

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	
	2013 US$'000	2012 US$'000
Current to 90 days	**2,112,726**	2,105,072
91 to 180 days	**93,213**	105,351
181 to 360 days	**9,569**	24,766
Over 360 days	**5,333**	7,489
	2,220,841	2,242,678

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

22 TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31 December 2013, trade receivables of US$2,203,876,000 (2012: US$2,194,418,000) that are current or less than 90 days past due are not considered impaired. Trade receivables of US$16,965,000 (2012: US$48,260,000) 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	
	2013	2012
	US$'000	US$'000
91 to 180 days	**7,202**	36,246
Over 180 days	**9,763**	12,014
	16,965	48,260

As of 31 December 2013, outstanding trade receivables of US$41,765,000 (2012: US$36,974,000) and other receivables of US$12,658,000 (2012: US$18,774,000) 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	
	2013	2012
	US$'000	US$'000
At 1 January	**55,748**	53,914
Provision for receivable impairment *(Note 4)*	**11,881**	13,259
Receivables written off during the year as uncollectible	**(12,246)**	(10,539)
Unused amounts reversed *(Note 4)*	**(960)**	(886)
At 31 December	**54,423**	55,748

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 receivables mentioned above.

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$38,190,000 (2012: US$35,666,000) to banks in exchange for cash as at 31 December 2013. The transactions have been accounted for as collateralized bank advances.

22 TRADE AND OTHER RECEIVABLES (CONTINUED)

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	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
HK dollar	**292,324**	220,601	**313**	250
US dollar	**1,588,874**	1,748,336	**–**	–
Euro dollar	**318,857**	227,337	**–**	–
Pound sterling	**90,518**	122,154	**–**	–
Renminbi	**169,764**	156,882	**–**	–
Malaysia Ringgit	**50,004**	52,297	**–**	–
Thailand Baht	**54,724**	53,954	**–**	–
Others	**102,296**	86,507	**–**	–
	2,667,361	2,668,068	**313**	250

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Cash and bank balances	**459,559**	680,379	**110**	1,553

The effective interest rate at the balance sheet date on bank balances was 0.4% (2012: 0.4%) per annum; these deposits have an average maturity period of 10 days (2012: 6 days).

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Trade and bills payable	**2,552,495**	2,458,128	**–**	–
Brand license payable *(Note 29)*	**40,839**	25,689	**–**	–
Other accrued charges and sundry payables	**796,951**	801,771	**9,715**	10,406
	837,790	827,460	**9,715**	10,406
	3,390,285	3,285,588	**9,715**	10,406

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 2013.

24 TRADE AND OTHER PAYABLES (CONTINUED)

At 31 December 2013, the ageing of trade and bills payable based on invoice date is as follows:

	The Group	
	2013 US$'000	2012 US$'000
Current to 90 days	**2,452,932**	2,376,236
91 to 180 days	**66,220**	67,050
181 to 360 days	**6,725**	3,007
Over 360 days	**26,618**	11,835
	2,552,495	2,458,128

25 BANK BORROWINGS

	The Group	
	2013 US$'000	2012 US$'000
Long-term bank loans		
– Unsecured *(Note 29)*	**116,640**	100,000
Short-term bank loans		
– Secured	**4,845**	4,200
– Unsecured	**89,300**	113,319
	94,145	117,519
Total bank borrowings	**210,785**	217,519

As at 31 December 2013 and 2012 the carrying amounts of the Group's borrowings approximated their fair values.

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

			2013					2012		
	HKD	**USD**	**EUR**	**GBP**	**RMB**	HKD	USD	EUR	GBP	RMB
Long-term bank loans	**–**	**2.3%**	**–**	**–**	**–**	–	2.5%	–	–	–
Short-term bank loans	**–**	**–**	**3.8%**	**–**	**5.7%**	1.1%	1.7%	–	–	5.9%

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

25 BANK BORROWINGS (CONTINUED)

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

	The Group	
	2013 **US$'000**	2012 US$'000
HK dollar	**–**	46,252
US dollar	**116,640**	101,500
Euro dollar	**2,341**	–
Renminbi	**64,926**	23,988
Others	**26,878**	45,779
	210,785	217,519

26 SHARE CAPITAL AND OPTIONS

	Number of shares (in thousand)	HK$'000	Equivalent to US$'000
Authorized			
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
At 1 January 2013, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 31 December 2013, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and fully paid			
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)*	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
At 1 January 2013, ordinary shares of HK$0.0125 each	**8,359,048**	**104,488**	**13,396**
Exercise of share options	**1,350**	**17**	**2**
At 31 December 2013, ordinary shares of HK$0.0125 each	**8,360,398**	**104,505**	**13,398**

NOTE: Pursuant to a placing agreement dated 27 March 2012, FH (1937) placed 210,000,000 existing Shares 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 utilized primarily for the settlement of acquisition considerations, as well as general working capital of the Group. The closing price of the Share quoted on the Stock Exchange on 27 March 2012 was HK$19.60 per Share.

26 SHARE CAPITAL AND OPTIONS (CONTINUED)

Details of Share Options granted by the Company pursuant to the Option Scheme and outstanding at 31 December 2013 are as follows:

Grant Date	Exercise Price HK$	Exercisable period	Number of Share Options Outstanding As at 1/1/2013	Exercised	Cancelled	Lapsed	As at 31/12/2013
24/1/2008	12.77	1/3/2011 – 28/2/2013	28,336,000	(575,000)	(1,409,000)	(26,352,000)	–
21/5/2008	15.00	1/3/2011 – 28/2/2013	1,684,000	–	(118,000)	(1,566,000)	–
13/8/2008	13.10	1/3/2011 – 28/2/2013	1,943,000	(242,400)	(61,200)	(1,639,400)	–
24/2/2009	8.61	1/3/2011 – 28/2/2013	1,072,000	(532,000)	–	(540,000)	–
14/8/2009	13.90	1/3/2011 – 28/2/2013	2,344,200	–	(524,350)	(1,819,850)	–
25/3/2010	20.76	1/3/2011 – 28/2/2013	4,866,600	–	(44,450)	(4,822,150)	–
15/11/2010	22.42	1/3/2011 – 28/2/2013	2,357,200	–	(252,800)	(2,104,400)	–
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	2,033,000	–	–	–	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	3,742,000	–	–	–	3,742,000
26/6/2012	15.09	1/5/2014 – 30/4/2016	8,357,000	–	–	–	8,357,000
12/11/2012	13.04	1/5/2013 – 30/4/2015	813,000	–	–	–	813,000
12/11/2012	13.04	1/5/2014 – 30/4/2016	3,014,000	–	–	–	3,014,000
		Total	250,737,000	(1,349,400)	(2,409,800)	(38,843,800)	208,134,000

Subsequent to 31 December 2013, no Shares has been allotted and issued under the Option Scheme.

26 SHARE CAPITAL AND OPTIONS (CONTINUED)

Employee share option expenses charged to the consolidated profit and loss account are determined using 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	12/11/2012
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.

27 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$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2013, as previously reported	(6,739)	3,742	33,830	2,608	(1,015)	(5,438)	(30,152)	(3,164)
Impact of adoption of HKAS 19 (2011)	–	–	–	–	–	(9,340)	–	(9,340)
Balance at 1 January 2013, as restated	(6,739)	3,742	33,830	2,608	(1,015)	(14,778)	(30,152)	(12,504)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	11,810	11,810
Net fair value gains on available-for-sale financial assets, net of tax *(Note 18)*	–	–	–	71	–	–	–	71
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(398)	–	–	(398)
Remeasurements from post-employment benefits	–	–	–	–	–	4,440	–	4,440
Transactions with owners								
Employee share option scheme:								
– value of employee services	–	–	3,522	–	–	–	–	3,522
– transfer to share premium	–	–	(531)	–	–	–	–	(531)
Transfer to capital reserve	–	93	–	–	–	–	–	93
At 31 December 2013	(6,739)	3,835	36,821	2,679	(1,413)	(10,338)	(18,342)	6,503

27 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$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2012, as previously reported	(8,503)	3,618	47,237	2,496	9,474	(3,549)	(78,212)	(27,439)
Impact of adoption of HKAS 19 (2011)	–	–	–	–	–	(9,340)	–	(9,340)
Balance at 1 January 2012, as restated	(8,503)	3,618	47,237	2,496	9,474	(12,889)	(78,212)	(36,779)
Comprehensive income								
Currency translation differences	–	–	–	–	–	–	48,060	48,060
Net fair value gains on available-for-sale financial assets, net of tax *(Note 18)*	–	–	–	112	–	–	–	112
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	(10,489)	–	–	(10,489)
Remeasurements 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, restated	(6,739)	3,742	33,830	2,608	(1,015)	(14,778)	(30,152)	(12,504)

27 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
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 2013	**3,697,012**	**(6,739)**	**264,189**	**33,830**	**297,701**	**4,285,993**
Profit for the year	**–**	**–**	**–**	**–**	**601,460**	**601,460**
Employee share option scheme:						
– value of employee services	**–**	**–**	**–**	**3,522**	**–**	**3,522**
– proceeds from shares issued	**1,933**	**–**	**–**	**–**	**–**	**1,933**
– transfer to share premium	**531**	**–**	**–**	**(531)**	**–**	**–**
2012 final dividend paid	**–**	**–**	**–**	**–**	**(171,495)**	**(171,495)**
2013 interim dividend paid	**–**	**–**	**–**	**–**	**(160,777)**	**(160,777)**
Reserves	**3,699,476**	**(6,739)**	**264,189**	**36,821**	**202,461**	**4,196,208**
Proposed dividend	**–**	**–**	**–**	**–**	**364,428**	**364,428**
At 31 December 2013	**3,699,476**	**(6,739)**	**264,189**	**36,821**	**566,889**	**4,560,636**

27 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 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. In 2012, 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 and 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 2013.

28 PERPETUAL CAPITAL SECURITIES

On 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$500 million, which have been primarily utilized for the new acquisitions in 2013 as well as the settlement of consideration payable for prior year acquisitions. 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 amounts as at 31 December 2013 and 2012 included the accrued distribution payments.

29 LONG-TERM LIABILITIES

	The Group		The Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Long-term bank loans – unsecured *(Note 25)*	**116,640**	100,000	**–**	–
Long-term notes – unsecured	**1,254,915**	1,255,461	**1,254,915**	1,255,461
Purchase consideration payable for acquisitions	**1,397,999**	1,648,275	**–**	–
Brand license payable	**307,380**	190,926	**–**	–
Other non-current liability (non-financial liability)	**88,598**	67,414	**–**	–
	3,165,532	3,262,076	**1,254,915**	1,255,461
Current portion of purchase consideration payable for acquisitions	**(409,512)**	(329,570)	**–**	–
Current portion of brand license payable *(Note 24)*	**(40,839)**	(25,689)	**–**	–
	2,715,181	2,906,817	**1,254,915**	1,255,461

Purchase consideration payable 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$498,376,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US$756,539,000 will mature in 2020 and bear annual coupon of 5.25%.

Balance of consideration payable for acquisitions as at 31 December 2013 amounted to US$1,397,999,000 (2012: US$1,648,275,000), of which US$693,549,000 (2012: US$822,703,000) was primarily earn-out and US$704,450,000 (2012: US$825,572,000) was earn-up. Earn-out is a contingent consideration that will be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earn-up is contingent consideration that will be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated period of time.

Earn-out and earn-up of certain acquisitions were remeasured during the year, details are set out in *Note 4* and *Note 12*.

The maturity of the financial liabilities is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**450,351**	355,259	**–**	–
Between 1 and 2 years	**362,617**	487,827	**–**	–
Between 2 and 5 years	**1,343,700**	1,539,970	**498,376**	497,895
Wholly repayable within 5 years	**2,156,668**	2,383,056	**498,376**	497,895
Over 5 years	**920,266**	811,606	**756,539**	757,566
	3,076,934	3,194,662	**1,254,915**	1,255,461

29 LONG-TERM LIABILITIES (CONTINUED)

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

	The Group	
	2013	2012
	US$'000	US$'000
Long-term bank loans – unsecured	**116,640**	100,000
Long-term notes – unsecured	**1,331,675**	1,411,800
Purchase consideration payable for acquisitions	**988,487**	1,318,705
Brand license payable	**266,541**	165,237
	2,703,343	2,995,742

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

	The Group	
	2013	2012
	US$'000	US$'000
HK dollar	**2,675**	18,510
US dollar	**2,692,348**	2,870,710
Pound sterling	**109,551**	129,087
Euro dollar	**211,053**	176,355
Others	**61,307**	–
	3,076,934	3,194,662

30 POST-EMPLOYMENT BENEFIT OBLIGATIONS

	The Group		
	As at 31 December		As at 1 January
	2013	2012	2012
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Pension obligations *(Note)*	**16,154**	20,498	14,872
Long service payment liabilities	**8,176**	8,272	8,608
	24,330	28,770	23,480

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.

30 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	The Group		
	As at 31 December		As at 1 January
	2013	2012	2012
	US$'000	US$'000 (restated)	US$'000 (restated)
Present value of funded obligations	**44,838**	50,772	43,808
Fair value of plan assets	**(28,684)**	(30,274)	(28,936)
Net liabilities in the balance sheet	**16,154**	20,498	14,872

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

	The Group	
	2013	2012
	US$'000	US$'000
Current service cost	**2,271**	3,004
Past service cost and gain/loss on settlements	**606**	86
Return on plan assets	**–**	(853)
Administrative expenses paid	**131**	–
Net interest (income)/expense	**(676)**	1,373
Total, included in staff costs *(Note 10)*	**2,332**	3,610

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

	The Group	
	2013	2012
	US$'000	US$'000
At 1 January	**30,274**	28,936
Return on plan assets	**–**	1,182
Interest income	**1,824**	–
Exchange differences	**(257)**	1,260
Administrative expenses paid	**(131)**	–
Contributions	**1,454**	1,911
Benefits paid	**(3,132)**	(3,308)
Actuarial (loss)/gain on plan assets	**(1,348)**	293
At 31 December	**28,684**	30,274

30 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(iv) Movements in the defined benefit obligation are as follows:

	The Group	
	2013 US$'000	2012 US$'000
At 1 January, as previously reported	**43,613**	36,649
Adjustment for adoption of HKAS 19 (2011)	**7,159**	7,159
At 1 January, as restated	**50,772**	43,808
Current service cost	**2,271**	3,004
Interest cost	**1,148**	1,373
Past service cost and loss on settlements	**606**	86
Actuarial gain from changes in experiences	**(188)**	–
Actuarial (gain)/loss from changes in financial assumption	**(4,983)**	2,127
Actuarial loss from changes in demographic assumption	**275**	–
Exchange differences	**(1,185)**	1,282
Benefits paid	**(3,878)**	(3,308)
Liabilities acquired in business combination	**–**	2,400
At 31 December	**44,838**	50,772

(v) The movements in net defined benefit liabilities recognized in the consolidated balance sheet are as follows:

	The Group	
	2013 US$'000	2012 US$'000
At 1 January, as previously reported	**13,339**	7,713
Adjustment for adoption of HKAS 19 (2011)	**7,159**	7,159
At 1 January, as restated	**20,498**	14,872
Exchange differences	**(928)**	22
Total expense charged in the consolidated income statement	**2,332**	3,610
Remeasurements (gains)/losses recognized in other comprehensive income	**(3,548)**	1,505
Contributions paid	**(1,454)**	(1,911)
Benefits paid	**(746)**	–
Liabilities acquired in business combination	**–**	2,400
At 31 December	**16,154**	20,498

(vi) The principal actuarial assumptions used for accounting purposes are:

	2013 %	2012 %
Discount rate	**1.9-9**	0.6-6.25
Inflation	**2.5-4.5**	1.5-5.5
Salary growth rate	**3-8**	3-8
Pension growth rate	**3.3**	2.8

30 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(vi) The principal actuarial assumptions used for accounting purposes are: (continued)

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Impact on defined benefit obligation		
	Change in Assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**±0.25%**	**–2.24%**	**2.33%**

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(vii) Plan assets comprised follows:

	2013 %	2012 %
Equity instruments	**61**	56
Debt instruments	**10**	11
Other	**29**	33
	100	100

The weighted average duration of the defined benefit obligation ranges from 8.0 to 19.0 years.

(viii) Expected maturity analysis of benefit payments:

	The Group		
At 31 December 2013	**Within 10 years US$'000**	**Between 10-20 years US$'000**	**Beyond 20 years US$'000**
Expected benefit payments	**11,336**	**22,202**	**17,602**

30 POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

(viii) Expected maturity analysis of benefit payments: (continued)

The group is exposed to a number of risks in relation to the defined benefit obligation, the most significant of which are detailed below:

Investment risk	The defined benefit pension holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term the short-term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The defined benefit pension's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the defined benefit pension holds assets such as equities the value of the assets and liabilities may not move in the same way.
Inflation risk	A significant proportion of the benefits under the defined benefit pension are linked to inflation. Although the defined benefit pension's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
Mortality risk	In the event that members live longer than assumed a deficit will emerge in the defined benefit pension.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2013 consists of equities and bonds, although the Group also invests in property, bonds, cash and investment (hedge) funds. The Group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of high-quality entities.

31 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2012: 16.5%).

The movements in the net deferred tax liabilities are as follows:

	The Group		
	2013 **US$'000**	2012 US$'000 (Restated)	2011 US$'000 (Restated)
At 1 January	**1,345**	28,728	9,180
Adjustment for adoption of HKAS 19 (2011)	**–**	(2,777)	(2,777)
	1,345	25,951	6,403
(Credited)/charged to consolidated profit and loss account *(Note 6)*	**(658)**	(14,403)	18,886
Acquisition of businesses *(Note 33)*	**10,070**	(5,102)	(38)
Adjustments to purchase consideration payable for acquisitions and net asset value	**7,893**	–	572
Disposal of subsidiaries	**–**	–	135
Credited to hedging reserve	**8**	(4,345)	–
Exchange differences	**111**	(756)	(7)
At 31 December	**18,769**	1,345	25,951

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$733,660,000 (2012: US$777,540,000) to carry forward against future taxable income, out of which US$100,515,000 will expire during 2014–2032. 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.

31 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	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000
As at 1 January, as previously reported	**102,365**	64,479	**4,623**	2,990	**37,544**	29,888	**4,887**	159	**149,419**	97,516
Impact of adoption of HKAS 19 (2011)	**–**	–	**–**	–	**–**	–	**–**	2,777	**–**	2,777
As at 1 January, as restated	**102,365**	64,479	**4,623**	2,990	**37,544**	29,888	**4,887**	2,936	**149,419**	100,293
Credited to consolidated profit and loss account	**7,759**	34,806	**3,147**	1,574	**20,401**	4,771	**4,838**	604	**36,145**	41,755
Acquisition of businesses/subsidiaries	**2,287**	2,669	**–**	–	**–**	2,709	**–**	–	**2,287**	5,378
Credited to hedging reserve	**–**	–	**–**	–	**–**	–	**(8)**	1,141	**(8)**	1,141
Exchange differences	**(513)**	411	**29**	59	**31**	176	**147**	206	**(306)**	852
As at 31 December	**111,898**	102,365	**7,799**	4,623	**57,976**	37,544	**9,864**	4,887	**187,537**	149,419

	The Group							
	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred tax liabilities	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000
As at 1 January	**41,173**	27,719	**106,679**	92,705	**2,912**	5,820	**150,764**	126,244
(Credited)/charge to consolidated profit and loss account	**(15,252)**	13,408	**50,582**	13,974	**157**	(30)	**35,487**	27,352
Acquisition of businesses/subsidiaries	**–**	114	**12,352**	–	**5**	162	**12,357**	276
Adjustments to purchase consideration payable for acquisitions and net asset value	**–**	–	**7,893**	–	**–**	–	**7,893**	–
Credited to hedging reserve	**–**	–	**–**	–	**–**	(3,204)	**–**	(3,204)
Exchange differences	**(55)**	(68)	**–**	–	**(140)**	164	**(195)**	96
As at 31 December	**25,866**	41,173	**177,506**	106,679	**2,934**	2,912	**206,306**	150,764

31 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		
	31 December		1 January
	2013	2012	2012
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
Deferred tax assets	**75,364**	69,739	26,925
Deferred tax liabilities	**(94,133)**	(71,084)	(52,876)
	(18,769)	(1,345)	(25,951)

	The Group		
	31 December		1 January
	2013	2012	2012
	US$'000	US$'000	US$'000
		(Restated)	(Restated)
The amounts shown in the balance sheet include the following:			
Deferred tax assets to be recovered after more than 12 months	**52,284**	56,014	19,443
Deferred tax assets to be recovered within 12 months	**23,080**	13,725	7,482
Deferred tax liabilities to be settled after more than 12 months	**83,336**	40,605	45,512
Deferred tax liabilities to be settled within 12 months	**10,797**	30,479	7,364

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW GENERATED FROM OPERATIONS

	2013 US$'000	2012 US$'000
Profit before taxation	**853,649**	676,617
Interest income	**(18,530)**	(20,385)
Interest expenses	**141,556**	135,109
Depreciation	**96,115**	86,118
Amortization of computer software and system development costs	**10,836**	7,633
Amortization of brand licenses and distribution right	**133,612**	126,503
Amortization of other intangible assets arising from business combinations	**78,263**	64,944
Amortization of prepaid premium for land leases	**144**	178
Share of profits less losses of associated companies	**(442)**	(638)
Share of profits less losses of joint ventures	**(409)**	–
Employee share option expenses	**3,522**	2,248
Loss on disposal of property, plant and equipment, net	**3,959**	1,504
Net provision for impairment of available-for-sale financial assets	**–**	88
Gain on disposal of businesses/licensing right	**(5,317)**	(29,635)
Gain on remeasurement of contingent consideration payable	**(187,400)**	(325,591)
Operating profit before working capital changes	**1,109,558**	724,693
(Increase)/decrease in inventories	**(132,283)**	100,173
Decrease/(increase) in trade and bills receivable, other receivables, prepayments, deposits and amount due from related companies	**157,141**	(169,640)
(Decrease)/increase in trade and bills payable, accrued charges and sundry payables and amount due to related companies	**(125,715)**	9,957
Net cash inflow generated from operations	**1,008,701**	665,183

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2013		2012	
	Share capital including share premium US$'000 *(Note 26 & 27)*	**Bank loans US$'000**	Share capital including share premium US$'000 *(Note 26 & 27)*	Bank loans US$'000
At 1 January	**3,710,408**	**217,519**	3,127,084	217,425
Non cash movement				
Transfer from employee share-based compensation reserve	**531**	**–**	15,655	–
	3,710,939	**217,519**	3,142,739	217,425
Issue of shares upon a private placing	**–**	**–**	498,260	–
Net proceeds from issue of shares upon exercise of share options	**1,935**	**–**	69,409	–
Net (repayment)/drawdown of bank loans	**–**	**(6,734)**	–	94
At 31 December	**3,712,874**	**210,785**	3,710,408	217,519

(c) DISPOSAL OF BUSINESSES/LICENSING RIGHT

Details of net (liabilities)/assets of disposed businesses/licensing right at date of disposal are set out below:

	2013 US$'000	2012 US$'000
Net assets disposed		
Intangible assets *(Note 12)*	**11,531**	42
Property, plant and equipment *(Note 13)*	**4,570**	4,681
Inventories	**–**	26,844
Trade and bills receivable	**–**	14,736
Other receivables, prepayments and deposits	**–**	2,936
Cash and bank balances	**–**	6,448
Trade and bills payables	**–**	(4,781)
Accrued charges and sundry payable	**(1,527)**	(6,483)
Brand license payable	**(10,302)**	–
Taxation	**–**	(850)
Book value of net assets disposed	**4,272**	43,573

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) DISPOSAL OF BUSINESSES/LICENSING RIGHT (CONTINUED)

Analysis of net inflow of cash and cash equivalents in respect of the disposal:

	2013 US$'000	2012 US$'000
Consideration received	**18,585**	74,548
Consideration receivables	**–**	(25,103)
Costs incurred in respect of the disposal	**(8,996)**	(1,340)
Cash and cash equivalents disposed	**–**	(6,448)
Net inflow of cash and cash equivalents in respect of disposal of businesses/licensing right	**9,589**	41,657

Analysis of net gain on disposal of businesses/licensing right:

	2013 US$'000	2012 US$'000
Consideration net of costs incurred	**9,589**	73,208
Less: Net assets disposed	**(4,272)**	(43,573)
Net gain on disposal of businesses/licensing right *(Note 4)*	**5,317**	29,635

33 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 make any announcement in accordance with Chapter 14 of the Rules Governing The Listing of Securities on The Stock Exchange ("Listing Rules") for any individual acquisition completed during the year since none of the acquisitions, on a standalone basis, would be of sufficient material to be recognized as a notifiable transaction, and, accordingly no disclosure is provided for the details and impact of any individual acquisition. However, on a collective basis, the discounted aggregate estimated fair value of considerations payable for the acquired businesses amounted to US$541 million, which included initial consideration paid and payable of US$186 million and US$16 million, and performance-based earn-out and earn-up contingent considerations of US$276 million and US$63 million respectively. These fair values were determined by applying agreed multiples to the estimated post-acquisition performances of the acquired businesses and time value of money. The estimated aggregate undiscounted consideration payable amounted to approximately US$566 million with undiscounted initial considerations paid and payable of approximately US$186 million and US$16 million and aggregate potential undiscounted performance-based contingent consideration payable, which could range from nil to US$436 million.

33 BUSINESS COMBINATIONS (CONTINUED)

The contributions of these acquisitions to the Group in this year, the contributions of these acquisitions and the result of the Group as if these acquisitions had occurred on 1 January 2013 are as follows:

	Contribution of the acquired businesses for the year ended 31 December 2013 US$'000	Contribution of the acquired businesses as if the acquisitions had occurred on 1 January 2013 US$'000	Group results as if the acquisitions had occurred on 1 January 2013 US$'000
Turnover	**329,349**	**557,418**	**20,973,479**
Total margin	**82,538**	**144,166**	**3,365,666**
Operating costs	**(45,189)**	**(81,594)**	**(2,469,652)**
Core operating profit	**37,349**	**62,572**	**896,014**
Profit after tax	**21,154**	**34,088**	**762,872**

Details of net assets acquired, goodwill and acquisition-related costs are as follows:

	US$'000
Purchase consideration	**540,881**
Less: Aggregate fair values of net assets acquired *	**(186,887)**
Goodwill *(Note 12)*	**353,994**
Acquisition-related costs (included in other non-core operating expenses)	**9,421**

* *As at 31 December 2013, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalized the fair value assessments. The fair value of individual assets/liabilities stated below are provisional.*

33 BUSINESS COMBINATIONS (CONTINUED)

The goodwill is attributable to the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses.

The initial carrying amounts of the assets and liabilities 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	**67,518**
– Licensor relationships	**14,937**
– Trademarks and brand names	**10,335**
– Brand licenses	**515**
– Others	**1,364**
Property, plant and equipment *(Note 13)*	**5,397**
Inventories	**31,627**
Trade and bills receivable [ii]	**110,183**
Other receivables, prepayments and deposits	**24,944**
Cash and bank balances	**7,859**
Taxation	**(842)**
Trade and bills payables	**(49,645)**
Accrued charges and sundry payables	**(27,056)**
Deferred tax assets *(Note 31)*	**2,287**
Deferred tax liabilities *(Note 31)*	**(12,357)**
Derivative financial liabilities	**(179)**
Fair value of net assets acquired	**186,887**

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 identify and to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combination".

ii The trade and bills receivables of US$110,183,000 are expected to be collectible in full.

Details of these acquisitions are as follows:

In February 2013, the Group acquired Four Star Group, a leading pharmaceutical and medical device distributor in Macau.

In April 2013, the Group acquired Group A Limited, a UK – based point-of-sale business which is primarily operating in the beauty business.

In the same month, the Group also acquired a transportation company in Taiwan, Chuan Jui Group which focuses on hypermarket, consumer and retail channels.

In May 2013, the Group acquired Whalen Furniture, a leading furniture and furnishing trading company servicing US mass retailers with its own proprietary brands as well as private label business.

33 BUSINESS COMBINATIONS (CONTINUED)

In June 2013, the Group acquired RM Enterprises Group. It is a leading licensing agency for the development and promotion of character licensing in Greater China, South Korea, Japan and South East Asia.

In August 2013, the Group acquired New Concept, a high-end soft home company with nationwide distribution in China.

In October 2013, the Group acquired Jiangsu Soho which is a licensee and distributor of Jeep Kids brand in China.

In November 2013, the Group acquired Sicem. It is a leading licensing company specialized in character licenses in Italy.

Also in November 2013, the Group acquired R-Tsion, the exclusive sales agent for TV Mania in France.

In December 2013, the Group acquired a Canadian-based woman footwear company, Marvin Krasnow Enterprises Ltd. It is specialized in weatherproof, stain resistant technology in Italian leather and suede.

Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	US$'000
Purchase consideration	**540,881**
Purchase consideration payable for acquisitions*	**(354,961)**
Cash and cash equivalents acquired	**(7,859)**
Net outflow of cash and cash equivalents in respect of the acquisitions	**178,061**

* *Balances are the discounted aggregate estimated fair value of deferred considerations payable for the acquired businesses as at respective acquisition dates, which included initial consideration payable, performance-based earn-out and earn-up contingent considerations of US$16 million, US$276 million and US$63 million, respectively. Final amounts of consideration settlements will be determined based on future performance of the acquired businesses.*

34 CONTINGENT LIABILITIES

	The Group		**The Company**	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Guarantees in respect of banking facilities granted to:				
Subsidiaries	**–**	–	**4,644,267**	4,356,913
Associated companies	**750**	750	**–**	–
	750	750	**4,644,267**	4,356,913

35 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 15 years. At 31 December 2013, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2013	2012
	US$'000	US$'000
Within one year	**164,287**	184,398
In the second to fifth year inclusive	**424,225**	450,618
After the fifth year	**437,460**	539,995
	1,025,972	1,175,011

(b) CAPITAL COMMITMENTS

	The Group	
	2013	2012
	US$'000	US$'000
Contracted but not provided for:		
Property, plant and equipment	**19,611**	1,619
Computer software and system development costs	**9,168**	12,151
Authorized but not contracted for:		
Property, plant and equipment	**12,894**	60,654
Computer software and system development costs	**21,034**	8,981
	62,707	83,405

36 CHARGES ON ASSETS

Save as disclosed in *Note 13*, at 31 December 2013 and 2012 there were no charges on the assets and undertakings of the Company and the Group.

37 RELATED PARTY TRANSACTIONS

Pursuant to the master agreement for leasing properties (the "Existing Master Lease Agreement") that the Company entered into with Fung Holdings (1937) Limited ("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. In view of the expiry of the Existing Master Lease Agreement, the Company has renewed the master lease agreement (the "Renewal Master Lease Agreement") on 6 December 2013 for a term of three years commencing from 1 January 2014 and ending on 31 December 2016. In such respect, the Group paid rental expenses of US$26,934,000 for the year ended 31 December 2013.

37 RELATED PARTY TRANSACTIONS (CONTINUED)

On 19 January 2012, the Group entered into a distribution and sale of goods agreement (the "Master Distribution and Sale 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. Pursuant to this Master Distribution and Sale Goods Agreement, the Group recorded sales of US$60,947,000 during the year (2012: US$27,448,000).

On 13 August 2013, the Group entered into a management agreement with Perfect Investments B.V. ("Perfect Investments"), an associate of FH (1937), to provide management services to Perfect Investments and its subsidiaries, including Suhyang Networks Co., Ltd. and Suhyang International Co. Ltd. (collectively referred to as "Suhyang Group") for the period from 13 August 2013 to 31 December 2015. Pursuant to this Agreement, the Group recorded management fee income of US$1,890,000 during the year.

On 21 August 2013, the Group formed a business co-operation arrangement with Heritage Global Partners, LLC ("Heritage") and Trinity International Brands Limited, an associate of FH (1937), for launching Kent & Curwen brand in the United States, which is conducted under BHB, a wholly-owned subsidiary of Heritage. Pursuant to the arrangement, the Group entered into a convertible promissory note purchase agreement (the "Note Purchase Agreement") with BHB to contribute a maximum aggregate amount of US$32,000,000 in 6 tranches over three years with the first and second tranches of US$6,750,000 and US$3,250,000 already paid as at 31 December 2013. For the remaining US$22,000,000, the Group is required to pay BHB by 31 August 2015, subject to satisfaction of the relevant benchmarks as prescribed under the Note Purchase Agreement. The convertible promissory note (the "Note") carries interest at 5% per annum maturing on 31 December 2027 with a right of conversion up to 51.06% equity interest of BHB during the period commencing on the earlier of either (i) the date on which sum of all payments made by the Group equals the maximum aggregate amount of the Note; or (ii) 1 January 2016, and ending on the date occurring 90 days following the date of delivery to the Group of the annual audited financial statements of BHB for the fiscal year 2018. Up to 31 December 2013, the Group has subscribed US$10 million of the Note and recognized interest income thereon of US$177,740.

On 26 December 2013, the Group entered into a sale & purchase agreement with Fung Retailing Limited for the sale of the Roots License Right at the consideration of US$18 million. After the Completion, the Group may be entitled to contingent payments over the seven financial years ending 31 December 2020 of up to US$13.6 million in aggregate if centain turnover targets for the underlying business of the License Rights are achieved.

During the year, there were certain expenses incurred by FH (1937) and recharged to the Group amounting to approximately US$5,000,000 (2012: US$7,692,000).

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.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in *Note 11*.

Save as above, the Group had no material related party transactions during the year.

38 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 small portion 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.

At 31 December 2013, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure had strengthened/weakened by 10% (2012: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 2.1% (2012: 1.9%) and 1.9% (2012: 1.8%) 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 2013 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 2013, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$8,275,000 (2012: US$4,821,000), 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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) MARKET RISK (CONTINUED)

(iii) Cash flow and fair value interest rate risk (continued)

At 31 December 2013, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately US$1,190,000 (2012: US$1,535,000) 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 increased or decreased by approximately US$92,000 (2012: US$183,000).

(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$41,765,000 (2012: US$36,974,000) and other receivables of US$12,658,000 (2012: US$18,774,000), which were considered impaired and fully provided, none of the other financial assets including available-for-sale debt security *(Note 18)*, due from related companies *(Note 20)* and other receivables and deposits *(Note 22)* are considered 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.

38 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 23)*) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's long-term liabilities (including annual coupons payable for the long-term notes) 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 29* 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 2013				
Long-term bank loans	**–**	**99,640**	**17,000**	**–**
Purchase consideration payable for acquisitions	**411,976**	**249,875**	**753,235**	**23,880**
Long-term notes – unsecured	**66,875**	**66,875**	**659,375**	**809,063**
Brand license payable	**41,746**	**23,242**	**107,283**	**163,954**
Trade and bills payable	**2,552,495**	**–**	**–**	**–**
Accrued charges and sundry payables	**837,790**	**–**	**–**	**–**
Financial guarantee contract	**750**	**–**	**–**	**–**
Due to related companies	**14,682**	**–**	**–**	**–**
Bank advances for discounted bills	**38,190**	**–**	**–**	**–**
Short-term bank loans	**94,145**	**–**	**–**	**–**
At 31 December 2012				
Long-term bank loans	–	–	100,000	–
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
Brand license 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	–	–	–
Due to related companies	8,484	–	–	–
Bank advances for discounted bills	35,666	–	–	–
Short-term bank loans	117,519	–	–	–

All of the Group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of US$259,531,000 (2012: US$186,559,000) and undiscounted contractual cash outflows of US$267,167,000 (2012: US$191,076,000).

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (CONTINUED)

	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 Company				
At 31 December 2013				
Long-term notes – unsecured	66,875	66,875	659,375	809,063
Financial guarantee contract	4,651,823	–	–	–
Accrued charges and sundry payables	9,715	–	–	–
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	–	–	–

39 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 25)*, long-term bank loans (Note 25) and long-term notes *(Note 29)* less cash and cash equivalents *(Note 23)*). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

39 CAPITAL RISK MANAGEMENT (CONTINUED)

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013 US$'000	2012 US$'000
Long-term bank loans *(Note 25)*	**116,640**	100,000
Short-term bank loans *(Note 25)*	**94,145**	117,519
Long-term notes *(Note 29)*	**1,254,915**	1,255,461
	1,465,700	1,472,980
Less: Cash and cash equivalents *(Note 23)*	**(459,559)**	(680,379)
Net debt	**1,006,141**	792,601
Total equity	**5,549,685**	5,137,320
Total capital	**6,555,826**	5,929,921
Gearing ratio	**15%**	13%

40 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).

40 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Available-for-sale financial assets *(Note 18)*				
– Club debentures	–	–	3,669	3,669
– Derivative financial instrument *(Note 21)*	–	–	2,664	2,664
Total assets	–	–	6,333	6,333
Liabilities				
Derivative financial instruments used for hedging *(Note 21)*	–	8,275	–	8,275
Purchase consideration payable for acquisitions	–	–	1,397,999	1,397,999
Total liabilities	–	8,275	1,397,999	1,406,274

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 18)*				
– 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 21)*	–	4,821	–	4,821
Purchase consideration payable for acquisitions	–	–	1,648,275	1,648,275
Total liabilities	–	4,821	1,648,275	1,653,096

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.

40 FAIR VALUE ESTIMATION (CONTINUED)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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 2013.

	Purchase consideration payable for acquisitions US$'000	**Others US$'000**	**Total US$'000**
Opening balance	1,648,275	3,598	1,651,873
Fair value gains	–	71	71
Additions	354,961	2,664	357,625
Settlement	(408,853)	–	(408,853)
Remeasurement of acquisitions payable	(187,400)	–	(187,400)
Others	(8,984)	–	(8,984)
Closing balance	1,397,999	6,333	1,404,332
Total gain for the year included in profit or loss	(187,400)	–	(187,400)

The discount rate used to compute the fair value of purchase consideration payable is based on the then prevailing incremental cost of borrowings of the Group from time to time ranging from 1.0% to 2.5%.

41 EVENTS AFTER BALANCE SHEET DATE

In January 2014, the Group acquired The Licensing Company Limited, a global licensing agent based in UK.

In March 2014, the Group signed a sale & purchase agreement to acquire China Container Line, a sea freight forwarding company.

On 20 March 2014, the Company announced to make an application for a possible spin-off and separate listing of its global brands and licensing business on the Stock Exchange by way of a 100% distribution in specie (the "Proposed Spin-off"). The Company has received written confirmation from the Stock Exchange that it may proceed with the Proposed Spin-off.

42 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 20 March 2014.

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Held directly				
(2)	Global Brands Group Limited	Bermuda	Ordinary US$100	100	Investment holding
(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 US$1	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
	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
	Aquatalia Worldwide Limited	Republic of Ireland	Ordinary EUR1	100	Wholesaling
	Avanguardia S.r.l.	Italy	Registered capital EUR26,000	100	Research, design and logistical advice
	B.G.S. Limited	Thailand	Ordinary Baht 288,000 Preference Baht 712,000	100	Marketing and distribution of healthcare products
	Beijing Huaxin New Concept Trading Co., Ltd.	The People's Republic of China	Registered capital RMB100,000	100	Retailing
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Bond Medical Company Limited	Macau	MOP$100,000	100	Distribution of medical & pharmaceutical products and medical equipment
	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
	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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Chuan Jui Chuan Logistics Co., Ltd	Taiwan	NT$25,000,000	100	Transportation
	Chuan Jui Fu Logistics Co., Ltd	Taiwan	NT$25,000,000	100	Transportation
	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
	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	Rs100,000	100	Buying services for sourcing goods
(2)	Direct SG Mexico Ltd	Mexico	Common nominative shares MXP150,000	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 (US) Inc.	U.S.A.	Common stock US$1	100	Sourcing service
	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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (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**				
	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
	Fleet Company Limited	Macau	MOP$100,000	100	Distribution of medical & pharmaceutical products and medical equipment
	Forrestgrove Limited	Hong Kong	Ordinary HK$20	100	Export trading
	Four Star Company Limited	Macau	MOP$100,000	100	Distribution of medical & pharmaceutical products and medical equipment
	Four Star Construction and Engineering Company Limited	Macau	MOP$25,000	100	Distribution of medical & pharmaceutical products and medical equipment
	Frye Retail, LLC	U.S.A.	Capital contribution US$1	100	Retailing and wholesaling
(2)	GB Apparel Limited	England	Ordinary GBP1,000	100	Investment holding
(2)	GBG Asia Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(2)	GBG Global Brands International Limited (now known as Global Brands (Hong Kong) Limited with effect from 10 Feb 2014)	Hong Kong	Ordinary US$1	100	Investment holding
(2)	GBG International Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(2)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Curacao	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Group A Limited	England	Ordinary GBP195	100	Retail consultancy
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
(2)	GSCM 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	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
	Icare Health Care Company Ltd.	Macau	MOP$100,000	100	Distribution of medical & pharmaceutical products and medical equipment
	IDS Corporate Services (S) Pte. Ltd.	Singapore	Ordinary S$24,700	100	Investment holding. Distribution & provision of services including Management Services
	IDS Group Limited	British Virgin Islands	Ordinary US$949,165	100	Investment holding

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	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
	IDS USA West Inc.	U.S.A.	US$144,000	100	Provision of logistics services
	Imagine POS Limited	Hong Kong	Ordinary "A" HK$2,000,000 Ordinary "B" HK$199,980	100	Export trading
	Imagine POS UK Limited	England	Ordinary GBP100	100	Cosmetic estate management services
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	JAC TISSOT Solutions GmbH	Germany	EUR520,000	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
	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 capital 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
	Krasnow Enterprises Ltd.	Canada	Class "B" voting stock 100,000 Class "D" non-voting stock 25	100	Wholesaling
	Krasnow Enterprises, Inc.	U.S.A.	Common stock US$1,000	100	Wholesaling
	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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (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)	Lenci Calzature SpA	Italy	EUR206,400	100	Design, marketing and sourcing
	LF (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$68,000	100	Distribution of healthcare products
	LF Asia (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 RM1,000,000	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
(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
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading services
	LF Centennial Service (Singapore) Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading services
(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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	LF Europe (Germany) GmbH	Germany	EUR25,000	100	Investment holding
	LF Europe (Germany) Services GmbH	Germany	EUR25,000	100	Provision of accounting services
	LF Europe Limited	England	Ordinary GBP26,788,000	100	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 US$1	100	Freight forwarders and other logistics services
	LF Grand Corp	U.S.A.	US$1	100	Property investment
	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	Registered capital RMB50,000,000	100 foreign-owned enterprise	Provision of Freight forwarders and other logistics services
	LF Logistics (Guangzhou) Co., Ltd.	The People's Republic of China	Registered capital RMB10,000,000	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
	LF Logistics (Thailand) Limited	Thailand	Ordinary Baht 307,750,000	100	Provision of logistics services
	LF Logistics (UK) Limited	England	Ordinary GBP50,000	100	Provision of logistics services
	LF Logistics Holdings (UK) Limited	England	Ordinary GBP1	100	Investment holding
	LF Logistics Management Limited	Hong Kong	Ordinary HK$2	100	Provision of management and consultancy services
(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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (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 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 Spyder Canada Holdings ULC	Canada	CAD$100	100	Wholesaling
	LF Spyder USA 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 Rs64,000,200	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 Rs750,000 "B" Shares Rs500,000	60	Export trading services
(2)	Li & Fung (Morocco) SARL	Morocco	Ordinary Dirhams10,000	100	Export trading services
(2)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading services
	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	YTL45,356,100	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 services

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung Trading Service (Guangzhou) Limited	The People's Republic of China	Registered capital RMB10,000,000	100 foreign-owned enterprise	Export trading services
	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 services
	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	Manufacturing 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$26,824.8975	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
	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	Registered capital 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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (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**				
	Millwork Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
(2)	Modium Konfeksiyon Sanayi ve Ticaret Anonim 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
	New Concept International Enterprise Limited	Hong Kong	Ordinary HK$200	100	Distribution of home textile products
	New Star Instruments Limited	Macau	MOP$100,000	100	Distribution of medical & pharmaceutical products and medical equipment
	Nexpart Limited	England	Ordinary GBP100	100	Logistics and supply chain solution
	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 GBP0.25	100	Investment holding
	Peter Black International Limited	England	Ordinary GBP0.01	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
	PT Direct Sourcing Indonesia	Indonesia	Ordinary US$250,000	100	Export trading services
	PT. LF Asia Manufacturing Indonesia	Indonesia	Ordinary Rp453,600,000	100	Manufacturing of personal care and household products
	PT. LF Asia Marketing Indonesia	Indonesia	Ordinary US$300,000	100	Import and distribution of cosmetics and personal care products
	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and others services
	PT. Mitra Pharma Indonesia	Indonesia	Ordinary Rp1,000,000,000	84.15	Marketing and distribution of healthcare and pharmaceutical products
	Ralsey Group Ltd.	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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note	Principal subsidiaries	Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	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
	Rtsion Limited	England	Ordinary GBP1	100	Investment holding
	RVVW Apparel LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	Scemama International SAS	France	Ordinary EUR8,000	100	Investment Holding
	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
	Shanghai New Concept Trading Co., Ltd.	The People's Republic of China	Registered capital US$200,000	100 foreign-owned enterprise	Distribution of home textile 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
	Sicem International SRL	Italy	Equity shares EUR300,000	100	Licensed apparel
	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
	SNC Scemama	France	Ordinary EUR3,048.98	100	Sales Agent
	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

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

Note		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	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
	The Vault Projects Limited	England	Ordinary GBP1,000	100	Point of sale design and consultancy
	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
	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
	Welmed (Macau) Company Limited	Macau	MOP$25,000	100	Distribution of medical & pharmaceutical products and medical equipment
	Whalen Limited (formerly known as Toy Island Manufacturing Company Limited)	Hong Kong	Ordinary HK$62,000,000	100	Design and marketing
	Whalen LLC	U.S.A.	Capital contribution US$0.01	100	Wholesaling
	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 2013 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.

43 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE (CONTINUED)

		Place of Incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
Note	**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$2,936,792	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$9,254,118	30	Wholesaling
#	Winco Fireworks Mississippi, LLC	U.S.A.	Capital contribution US$112,029	30	Wholesaling
#	Winco of Tennessee, LLC	U.S.A.	Capital contribution US$398,381	30	Fireworks wholesaling and retailing
Note	**Principal joint venture**				
*	Iconix SE Asia Limited	Hong Kong	Ordinary HK$2	50	Licensing

The associated companies are not audited by PricewaterhouseCoopers.

* *The joint venture company is not audited by PricewaterhouseCoopers.*

The above table lists out the principal associated companies and joint venture of the Company as at 31 December 2013 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 and joint venture would, in the opinion of the directors, result in particulars of excessive length.

TEN-YEAR FINANCIAL SUMMARY

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2013 US$'000	2012 US$'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
Turnover	**20,745,410**	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
Operating profit	**975,824**	790,703	879,937	679,318	497,373	390,310	461,545	309,272	241,615	199,492
Interest income	**18,530**	20,385	19,490	13,567	11,636	14,455	26,691	12,627	8,915	5,534
Interest expenses	**(141,556)**	(135,109)	(128,594)	(98,443)	(47,706)	(61,561)	(64,059)	(18,983)	(2,741)	(1,470)
Share of profit less losses of associated companies	**442**	638	1,231	1,850	998	794	634	1,359	1,162	4,205
Share of profit less losses of joint ventures	**409**	–	–	–	–	–	–	–	–	–
Profit before taxation	**853,649**	676,617	772,064	596,292	462,301	343,998	424,811	304,275	248,951	207,761
Taxation	**(98,362)**	(54,053)	(90,660)	(47,525)	(30,798)	(33,269)	(32,379)	(22,011)	(19,391)	(16,699)
Net profit for the year	**755,287**	622,564	681,404	548,767	431,503	310,729	392,432	282,264	229,560	191,062
Attributable to:										
Shareholders of the Company	**725,337**	617,416	681,229	548,491	431,937	310,505	392,312	282,284	229,523	191,182
Holders of perpetual capital securities	**30,000**	4,415	–	–	–	–	–	–	–	–
Non-controlling interests	**(50)**	733	175	276	(434)	224	120	(20)	37	(120)
	755,287	622,564	681,404	548,767	431,503	310,729	392,432	282,264	229,560	191,062
Earnings per share (HK cents) *(Note)*										
Basic	**67.7**	58.1	65.8	55.9	45.5	34.6	44.8	33.5	27.8	23.2
equivalent to (US cents)	**8.68**	7.45	8.43	7.17	5.83	4.44	5.74	4.30	3.56	2.98
Dividend per share (HK cents) *(Note)*	**49.0**	31.0	53.0	45.0	37.5	28.5	35.5	27.5	22.7	19.1
equivalent to (US cents)	**6.28**	3.97	6.79	5.77	4.81	3.65	4.55	3.53	2.91	2.45
Special dividend per share (HK cents) *(Note)*	**–**	–	–	–	–	–	–	–	–	11.4
equivalent to (US cents)	**–**	–	–	–	–	–	–	–	–	1.46

CONSOLIDATED BALANCE SHEET

	2013 US$'000	2012 US$'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
Intangible assets	**7,608,556**	7,058,406	6,525,999	4,882,166	2,333,657	1,872,068	1,458,287	604,252	360,177	167,222
Property, plant and equipment	**439,599**	418,624	325,432	309,186	160,988	164,495	144,872	142,868	121,488	91,667
Other non-current assets	**119,558**	160,930	120,195	127,456	115,133	23,023	30,751	115,943	128,805	131,555
Current assets	**4,297,740**	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
Current liabilities	**4,082,124**	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
Net current assets	**215,616**	506,031	286,751	860,426	530,040	463,817	348,779	307,401	85,350	284,655
	8,383,329	8,143,991	7,258,377	6,179,234	3,139,818	2,523,403	1,982,689	1,170,464	695,820	675,099
Financed by:										
Share capital	**13,398**	13,396	12,987	12,899	12,103	11,648	11,060	10,928	9,412	9,350
Perpetual capital securities	**503,000**	504,415	–	–	–	–	–	–	–	–
Reserves	**5,033,287**	4,619,509	3,918,012	3,611,572	2,252,878	1,696,432	1,245,982	1,041,317	575,904	586,817
Shareholders' funds	**5,549,685**	5,137,320	3,930,999	3,624,471	2,264,981	1,708,080	1,257,042	1,052,245	585,316	596,167
Other non-current liabilities	**2,833,644**	3,006,671	3,327,378	2,554,763	874,837	815,323	725,647	118,219	110,504	78,932
	8,383,329	8,143,991	7,258,377	6,179,234	3,139,818	2,523,403	1,982,689	1,170,464	695,820	675,099

NOTE: Adjusted for the effect of 1-for-10 Bonus Issue in May 2006 and Share Subdivision in May 2011.

GLOSSARY

In this Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"associate(s)", "chief executive(s)", "connected person(s)", "substantial shareholder(s)"	each has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors of the Company
"Company", "Li & Fung"	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Director(s)"	the director(s) of the Company
"Fung Academy"	Fung Academy, part of the Fung Group, cultivates talent, accelerates learning and develops future capabilities in companies across the Fung Group
"Fung Distribution"	Fung Distribution International Limited, a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of FH (1937)
"Fung Foundation"	Fung (1906) Foundation Limited is a Hong Kong-registered charity focused on supporting colleagues within the Fung Group around the world to engage in and contribute to the communities in which they live and work
"FH (1937)"	Fung Holdings (1937) Limited, a company incorporated in Hong Kong, which is a substantial shareholder of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of PRC
"HSBC Trustee"	HSBC Trustee (C.I.) Limited, acting in its capacity of the trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King
"IDS"	Integrated Distribution Services Group Limited, a company incorporated in Bermuda, which is a wholly-owned subsidiary of the Company
"IDS Group"	IDS and its subsidiaries
"King Lun"	King Lun Holdings Limited, a company incorporated in the British Virgin Islands owned as to 50% by HSBC Trustee and 50% by Dr William Fung Kwok Lun
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules
"Option Scheme"	the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 12 May 2003
"PRC"	the People's Republic of China
"Report"	the Annual Report of the Company for the year ended 31 December 2013
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.0125 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option(s)"	the outstanding option(s) granted under the Option Scheme
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollar(s), the lawful currency of the United States of America

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