LI & FUNG LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 494

Announcement of Results for the Year Ended 31 December 2016

- Turnover and Core Operating Profit negatively impacted due to tough retail environment
- Despite challenges, resilient performance with improved total margin percentage and cost control
- Logistics continued double digit growth with e-commerce logistics outperforming
- Raised US$1 billion through strategic divestment and perpetual securities issuance
- New Three-Year Plan (2017-2019) is focused on speed, innovation, and digitalization to create the Supply Chain of the Future

HIGHLIGHTS	**Reported**			**Excluding the Asia consumer and healthcare distribution business#**		
(US$ million)	**2016**	2015	Change	**2016**	2015	Change
Turnover	**16,761**	18,831	(11.0%)	**16,195**	17,667	(8.3%)
Total margin	**1,962**	2,189	(10.4%)	**1,875**	1,995	(6.0%)
As % of turnover	***11.7%***	*11.6%*		***11.6%***	*11.3%*	
Core operating profit	**412**	512	(19.6%)	**408**	496	(17.7%)
As % of turnover	***2.5%***	*2.7%*		***2.5%***	*2.8%*	
Write-back of acquisition payable	**-**	117				
Profit attributable to Shareholders	**223**	421				
Earnings per share – Basic (HK cents)	**20.7**	39.1				
(equivalent to) (US cents)	***2.67***	*5.04*				
Adjusted profit attributable to Shareholders*	**261**	345	(24.4%)			
Adjusted earnings per share – Basic* (HK cents)	**24.2**	32.1				
(equivalent to) (US cents)	***3.12***	*4.13*				
Dividend per share (HK cents)						
- Interim	**11**	13				
- Final	**12**	15				

Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016
* Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

MANAGEMENT DISCUSSION AND ANALYSIS

Results Overview

2016 Performance

Results

	2016 US$m	2015 US$m	**Change %**
Turnover	**16,761**	18,831	(11.0%)
Total Margin	**1,962**	2,189	(10.4%)
% of Turnover	***11.7%***	*11.6%*	
Operating Costs	**1,550**	1,676	(7.5%)
% of Turnover	***9.2%***	*8.9%*	
Core Operating Profit	**412**	512	(19.6%)
% of Turnover	***2.5%***	*2.7%*	
Profit attributable to Shareholders	**223**	421	
Adjusted profit attributable to Shareholders*	**261**	345	(24.4%)
% of Turnover	***1.6%***	*1.8%*	

* Excluding non-cash M&A items (write-back of acquisition payable, amortization of other intangible assets and non-cash interest expenses)

The year under review marked the end of our 2014-2016 Three-Year Plan. Amid a tough operating business environment, we continued to execute our strategic goals of building a sustainable enterprise for the long term, simplifying the business and focusing on organic growth. In June 2016, we divested our Asia consumer and healthcare distribution business to refocus resources on our core trading and logistics businesses. This strategic divestment reinforced the Group's strong cash flow, strengthened its balance sheet and provided additional flexibility to its capital structure to fund future growth. In November 2016, we issued US$650 million in perpetual securities to further strengthen our balance sheet and capital structure. As at 31 December 2016, we had US$985 million of cash on hand as we entered into our new Three-Year Plan (2017-2019).

As part of our efforts to drive organic growth, we continued to reposition our customer base and develop deep expertise in product verticals in our Trading Network, while maintaining a strong customer pipeline. Our product verticals, particularly our furniture business, generated solid growth. Vendor Support Services (VSS) is now well established and embedded in our Trading Network. Our Logistics Network continued to gather strong momentum in organic growth, which was driven by existing and new customer growth, new geographic penetration and expansion of our e-logistics services. To improve productivity and support margin, we continued to control costs strategically. In particular, we were able to extract efficiencies and improve operating leverage with our global sourcing platform while continuing to digitalize our platform in order to help us capitalize on the vast amount of business data across our networks. This will be a crucial part of our next Three-Year Plan (2017-2019) as we focus on speed, innovation and digitalization to continue driving our businesses forward.

Reported Results and Results Excluding the Asia Consumer and Healthcare Distribution Business

	Reported			**Excluding the Asia consumer and healthcare distribution business***		
	2016 US$m	2015 US$m	**Change %**	**2016 US$m**	2015 US$m	**Change %**
Turnover	**16,761**	18,831	(11.0%)	**16,195**	17,667	(8.3%)
Total Margin	**1,962**	2,189	(10.4%)	**1,875**	1,995	(6.0%)
% of Turnover	***11.7%***	*11.6%*		***11.6%***	*11.3%*	
Operating Costs	**1,550**	1,676	(7.5%)	**1,468**	1,500	(2.1%)
% of Turnover	***9.2%***	*8.9%*		***9.1%***	*8.5%*	
Core Operating Profit	**412**	512	(19.6%)	**408**	496	(17.7%)
% of Turnover	***2.5%***	*2.7%*		***2.5%***	*2.8%*	

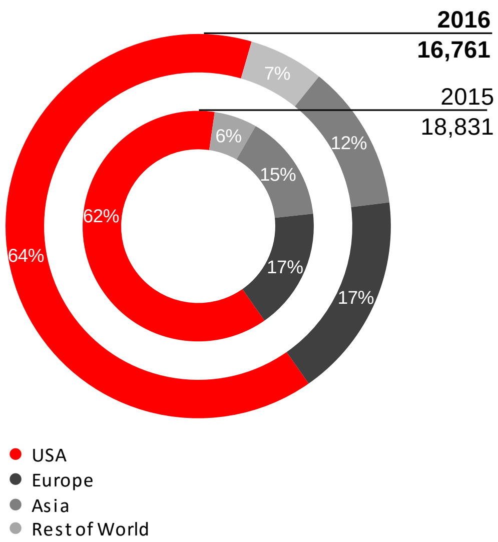
* Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

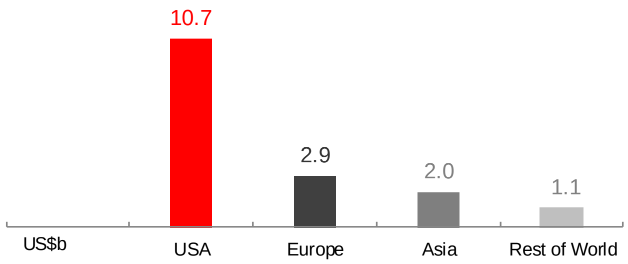
Turnover

In 2016, turnover decreased by 11.0% year on year to US$16.8 billion. Excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business, our total turnover decreased by 8.3%. Trading turnover continued to be affected by our customers' conservative buying programs, soft input prices and relative currency weaknesses against the US dollar. In our Logistics Network, we continued to grow our profits organically through deeper penetration of our existing customers, new customer contracts and expansion in Asia. From a geographical perspective, the US and Europe remained the largest contributors to our total turnover, contributing 64% and 17% respectively.

Group Geographical Market Turnover

US$m





YoY%*	**(7.9%)**	**(5.9%)**	**(6.1%)**	**(20.2%)**
YoY%	**(7.9%)**	**(5.9%)**	**(25.4%)**	**(20.2%)**

* Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

Total Margin

Total margin decreased by 10.4% to US$1,962 million, primarily due to the decline in total turnover. Excluding our strategic divestment of the Asia consumer and healthcare distribution business, total margin decreased by 6.0% year on year. However, our total margin percentage increased to 11.7% in 2016 from 11.6% in 2015, which was driven by the total margin increase in our Logistics Network. During the year and excluding the impact from the strategic divestment, the Trading Network's total margin percentage held up while the Logistics Network's total margin increased due to a better customer mix, more efficient freight procurement, and increased sales of value-added services in our global freight management business.

Operating Costs

Operating costs decreased by 7.5% to US$1,550 million as a result of our sustained efforts to improve operating efficiency and productivity through technology and streamlining our cost base. In particular, our Trading Network's operating costs decreased by US$150 million, or 10.4% year on year, due to stringent cost control measures as well as the strategic divestment of the Asia consumer and healthcare distribution business. The Logistics Network's operating costs rose by 10.4% year on year as a result of investments to support organic growth through geographical expansion, warehouse operations and enhancements to IT infrastructure.

Core Operating Profit

On a like-for-like basis, and excluding the impact from the strategic divestment of our Asia consumer and healthcare distribution business, core operating profit decreased by 17.7%. On a reported basis, core operating profit decreased by 19.6% year on year to US$412 million. The decline was mainly due to lower turnover and total margin in our Trading Network, as well as the strategic divestment of the Asia consumer and healthcare distribution business. The reduction in Trading core operating profit was partially offset by the 15.5% increase in core operating profit from our Logistics Network.

Profit Attributable to Shareholders

Our 2016 profit attributable to Shareholders of US$223 million does not include any write-back of consideration payable, while last year's included US$117 million of write-back. Accordingly, our reported profit attributable to Shareholders decreased by 47.0% year on year. Excluding the write-back of consideration payable as well as other non-cash merger and acquisition items, such as amortization of merger and acquisition related intangible assets and non-cash interest expenses, adjusted profit attributable to Shareholders declined by 24.4% year on year.

Segment Analysis

Trading Network

In our Trading Network, we provide end-to-end sourcing solutions through our global network to a diverse portfolio of global brand and retail customers. The retail landscape has been evolving as it adapts to changes in consumption behavior and preferences. As a result, our customers are actively adjusting their supply chains to remain competitive. Our multi-channel sourcing platform provides our customers with both agency and principal trading services to serve them seamlessly and according to their sourcing preferences. To further solidify our leadership in specific product categories, we remain focused on deepening our product expertise in targeted product verticals, namely sweaters, furniture and beauty. During 2016, we made significant progress in our product verticals, particularly in our furniture business, where our product innovation allowed us to improve margins and increase market share among key customers.

Our agency-based sourcing services, in which we act as a strategic sourcing agent for our customers under multi-year contracts, provide a steady turnover base and represent a significant part of our Trading Network business. Conversely, for our product-focused principal trading business, we act as either an onshore importer or an offshore supplier for our customers, and the terms of each order are mutually agreed on a per-program basis. As a principal trader, we sell to our customers' in-house buying offices and are responsible for product design and development all the way to production, quality control and local logistics, all tailored to specific customers' requirements.

Trading Network Results

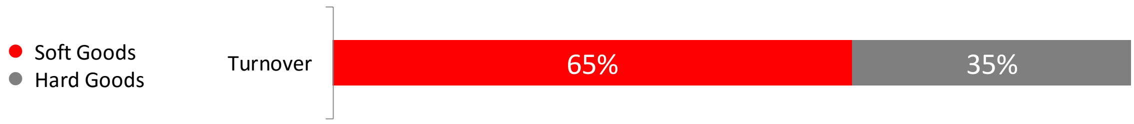
	Reported			**Excluding the Asia consumer and healthcare distribution business***		
	2016 US$m	2015 US$m	**Change %**	**2016 US$m**	2015 US$m	**Change %**
Turnover	**15,857**	17,907	(11.4%)	**15,287**	16,735	(8.7%)
Total Margin	**1,650**	1,909	(13.5%)	**1,563**	1,715	(8.9%)
% of Turnover	***10.4%***	*10.7%*		***10.2%***	*10.3%*	
Operating Costs	**1,299**	1,449	(10.4%)	**1,216**	1,272	(4.4%)
% of Turnover	***8.2%***	*8.1%*		***8.0%***	*7.6%*	
Core Operating Profit	**351**	460	(23.6%)	**347**	443	(21.7%)
% of Turnover	***2.2%***	*2.6%*		***2.3%***	*2.6%*	

* Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

Turnover

In 2016, turnover for the Trading Network, which comprised 65% soft goods and 35% hard goods, decreased by 11.4% to US$15.9 billion. Excluding the impact from the strategic divestment of the Asia consumer and healthcare distribution business, turnover decreased by 8.7% to US$15.3 billion. Our agency business continued to be adversely affected by lower unit demand as well as ongoing yet flattening deflationary input prices, especially in apparel. In principal trading, our mark ups remained pressured due to soft retail demand and the highly promotional retail environment. During the year, our customers continued to invest in omni-channel strategies in response to ongoing e-commerce disruption. Our overall unit volumes were weighed down by reduced orders from customers, which resulted from their efforts to increase inventory turnover with shorter lead times due to the subdued retail environment and weak consumer demand. We expect our customers' ongoing destocking programs to continue affecting our order volumes until retail inventory adjusts to a normalized level. Nevertheless, we remained a key strategic supplier to our core customers.

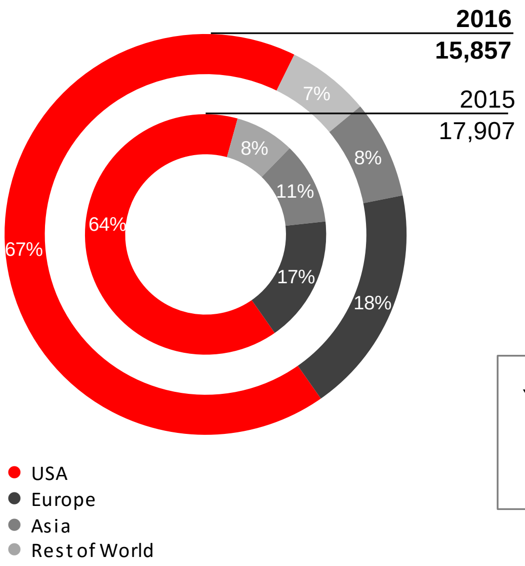
Product Mix

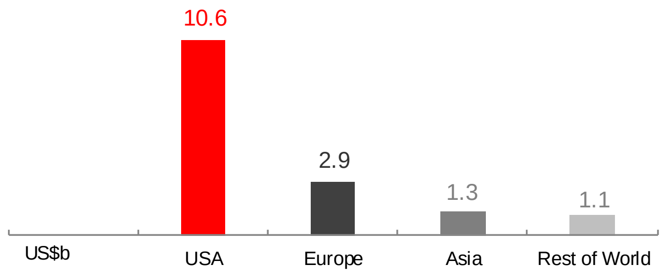


In 2016, we maintained our diversified customer portfolio globally. This included brands, department stores, specialty stores, clubs, hypermarkets and pure-play e-commerce retailers. Our prospective customer pipeline remained solid across various product verticals and business units. In particular, we are serving an increased number of pure e-commerce players who are accelerating the development of their own private label collections to compete in this highly promotional landscape.

Trading Network Geographical Market Turnover

US$m





YoY%*	**(7.8%)**	**(5.7%)**	**(13.3%)**	**(20.2%)**
YoY%	**(7.8%)**	**(5.7%)**	**(36.1%)**	**(20.2%)**

* Excluding the Asia consumer and healthcare distribution business, which was strategically divested in June 2016

Turnover from our US business, which is predominantly agency-based, decreased by 7.8% year on year to US$10.6 billion, as a result of deflationary apparel prices and lower unit volumes. The decrease in unit volumes was largely attributable to our customers' increasingly cautious buying decisions due to weak consumer demand and an uncertain retail outlook.

Our European business decreased by 5.7% year on year to US$2.9 billion. Our European trading business is predominantly principal-based with orders transacted in local currencies. The depreciation of European currencies against the US dollar, particularly the British pound, had an adverse translation impact on our reported European business turnover.

Turnover in Asia decreased by 36.1% year on year to US$1.3 billion. Excluding the impact of the strategic divestment of the Asia consumer and healthcare distribution business in 2016, turnover in Asia decreased by 13.3% to US$0.7 billion. Our Asia trading business was negatively impacted by the muted economic environment across the region. Turnover in Rest of World decreased by 20.2% year on year to US$1.1 billion, primarily due to soft consumer demand.

Total Margin

The Trading Network's total margin decreased by 13.5% year on year to US$1,650 million, as a result of turnover decline and ongoing margin pressure on our principal business. The total margin percentage decreased to 10.4% in 2016 from 10.7% in 2015, mainly due to continued margin pressure amid the challenging retail environment as well as the strategic divestment of the Asia consumer and healthcare distribution business. Excluding the impact of the divestment, the total margin percentage remained stable at 10.2% in 2016 as compared to 10.3% in 2015. In response, we have been working closely with our customers to optimize their supply chains, as well as providing differentiated and innovative products to support higher margins.

Operating Costs

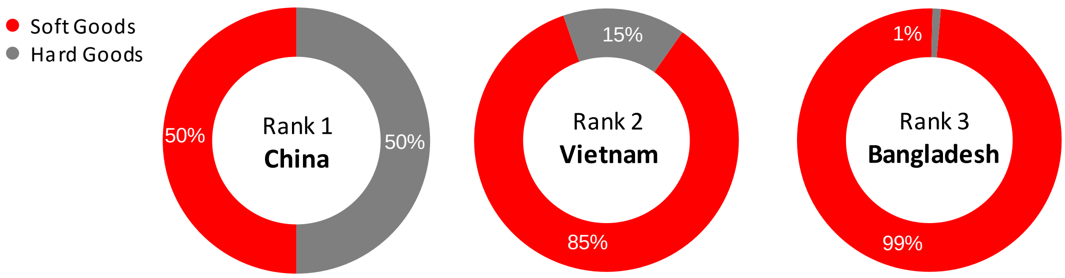
Operating costs in our Trading Network declined by 10.4% to US$1,299 million, which was mainly due to productivity gains and the strategic divestment of the Asia consumer and healthcare distribution business. Excluding the impact of the divestment, operating costs in the Trading Network declined by 4.4% to US$1,216 million. Our sustained efforts to reduce operating costs by streamlining operations and improving productivity led to a total cost reduction of more than US$100 million for the year. These improvements in operating leverage were partially offset by prudent investments in infrastructure and resources, which were necessary to drive growth in our customer accounts and deepen our product expertise. In addition, there was an increase in the provision for accounts receivable to allow for additional credit risk associated with customers in Chapter 11 proceedings in the US.

Core Operating Profit

Despite a 10.4% reduction in operating costs, core operating profit in the Trading Network decreased by 23.6% year on year to US$351 million due to declines in turnover and total margin of 11.4% and 13.5%, respectively. Correspondingly, core operating profit margin decreased to 2.2% in 2016 from 2.6% in 2015. Excluding the strategic divestment of the Asia consumer and healthcare distribution business, core operating profit decreased by 21.7% to US$347 million.

Top Sourcing Countries

Our global network covers more than 40 economies, which allows for flexibility when moving orders from one production country to another to handle capacity constraints and satisfy customers' needs. Within this global network, our top three sourcing countries continue to be China, Vietnam and Bangladesh. While China accounted for more than 50% of our sourcing unit volume, the remaining 40+ economies all have sizable sourcing operations. We are also among the largest exporters of specific product categories in many of these countries. This comprehensive global network, combined with strong local presence, a long operating history and critical mass, is one of our key competitive strengths. As the sourcing landscape continues to evolve with the decanting of sourcing from China, multiple trade agreements and changing trading policies, such as the new border tax proposed by the new US government, we are well positioned to scale our existing operations in individual countries to meet our customers' changing sourcing needs.



Vendor Support Services

Our VSS unit was formed in 2014 to tap into the potential of converting our vendor base of more than 15,000 vendors into a new customer base for services that can improve their operational efficiencies and compliance levels. We rolled out our total sourcing portal to digitally connect with all our vendors, launched bulk purchase programs in raw material procurement and product liability insurance, developed working capital management tools and services for our suppliers, and initiated various vendor compliance services. By the end of 2016, our VSS-related services were well established and embedded in our operating groups as part of our total service offerings to our customers. In 2016, our VSS-related services contributed more than 5% of our core operating profit, mainly from sourcing portal fees, working capital solution services, and bulk purchase programs in raw material procurement and product liability insurance.

Logistics Network

Our Logistics Network provides fully integrated solutions to customers through our in-country logistics and global freight management services. Operating as part of a total end-to-end supply chain solution, we are able to leverage our experience and network along the entire global supply chain. This allows us to offer strategic solutions to our customers, making us the logistics partner of choice. We add value to our customers through operational excellence, best-in-class IT systems and data analytics. These are further enhanced by established e-logistics expertise as well as e-commerce trade partner platform and capabilities.

Our in-country logistics business offers logistics and supply chain solutions in Asia, focused on our core verticals: footwear and apparel, fast-moving consumer goods, food and beverage, and healthcare products and serving both the online and offline channels. We serve a strong portfolio of blue-chip multinational customers, and we expanded immensely across these verticals and channels in 2016. Our service offerings include distribution center management, order management, local transportation (including last-mile delivery) and reverse logistics. In addition, we offer innovative services such as hubbing and consolidation, data analytics and omni-channel retail fulfillment services.

Our global freight management business offers full service international freight solutions, including freight forwarding, buyer consolidation and deconsolidation, customs brokerage, order management and inter-modal transportation services. The scale of this business increased significantly following the acquisition of China Container Line in 2014. With more than half a million TEUs of shipping volume, we are one of the leading freight forwarders in China.

Logistics Network Results

	2016 US$m	2015 US$m	**Change %**
Turnover	**907**	932	(2.7%)
Total Margin	**312**	280	+11.4%
Operating Costs	**251**	227	+10.4%
Core Operating Profit	**61**	53	+15.5%
% of Turnover	***6.7%***	*5.6%*	

Turnover

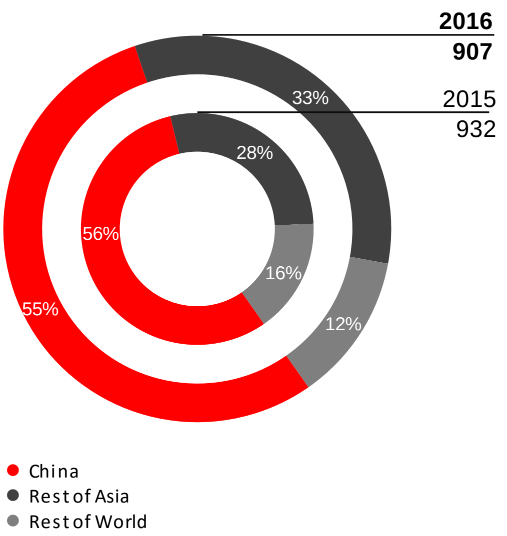
The turnover of our Logistics Network decreased by 2.7% year on year to US$907 million, which was mainly due to the substantial drop in global freight rates and unfavorable foreign currency translation. As a significant portion of our Logistics Network turnover was generated in Asia in local currencies, our reported turnover was exposed to currency volatility.

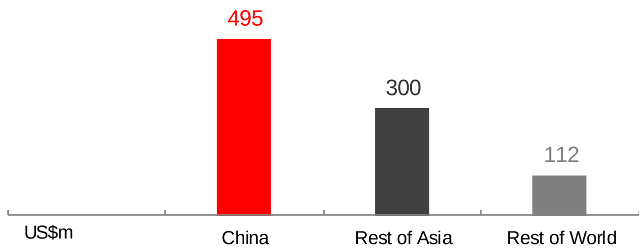
Our in-country logistics business continued to sustain strong organic growth, driven by new customer wins, new contracts from existing customers and accelerated momentum within the fast growing e-commerce space, where we have a leadership position. As with previous years, we continued to focus on maintaining a healthy customer portfolio by either renegotiating or exiting unprofitable relationships. We also expanded into Korea and Japan, and we continued to significantly enhance our presence in Indonesia during the year. In addition, 2016 marked the inauguration of our state-of-the-art distribution hub in Singapore, which at 1 million square feet is one of the largest and most modern logistics facilities in Asia.

Our global freight management business continued to feel pressure from low freight rates across all routes. Despite a mild recovery late last year, average freight rates in 2016 were approximately 15% lower than those in 2015, which adversely affected our top-line. However, we grew our unit volume by staying focused on gaining market share through geographical expansion and by cross-selling our freight services to both in-country logistics customers as well as those in our Trading Network. We also undertook proactive measures including prudent freight procurement, active contract management and the provision of value-added services such as buyer consolidation solutions, to mitigate the adverse margin impact from low freight rates.

Logistics Network Geographical Market Turnover

US$m





YoY%	**(5.5%)**	**+14.2%**	**(23.0%)**

Core Operating Profit

Core operating profit increased by 15.5% year on year to US$61 million despite the decrease in turnover. This was largely due to improvement in core operating profit margin, which rose to 6.7% in 2016 from 5.6% in 2015. This margin improvement was driven mainly by our in-country logistics business and was achieved through increased scale, optimization of our customer portfolio and enhanced productivity from improved operating efficiency. While margins from the global freight management business were impacted due to depressed global freight rates, this was cushioned by prudent freight procurement, active contract management and value-added services.

Balance Sheet and Capital Structure

Strong Cash Position

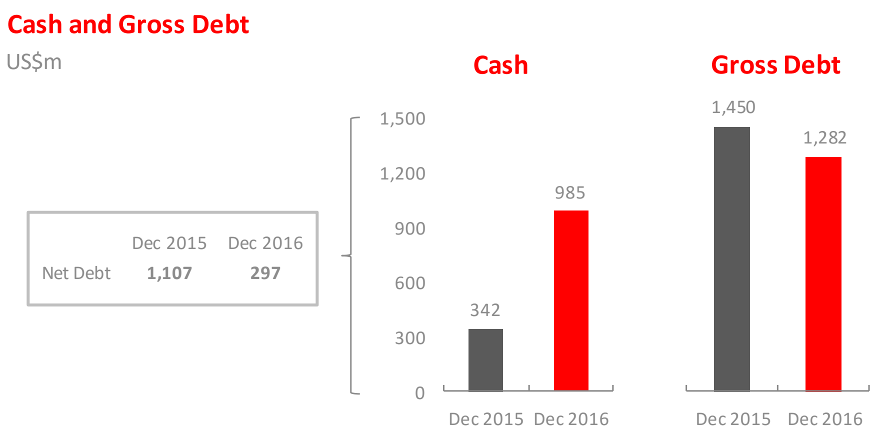
Li & Fung has a strong and stable cash flow conversion business that, together with cash on hand carried forward from the previous year, more than adequately funded our working capital, interest expenses, capital expenditure and dividends in 2016.

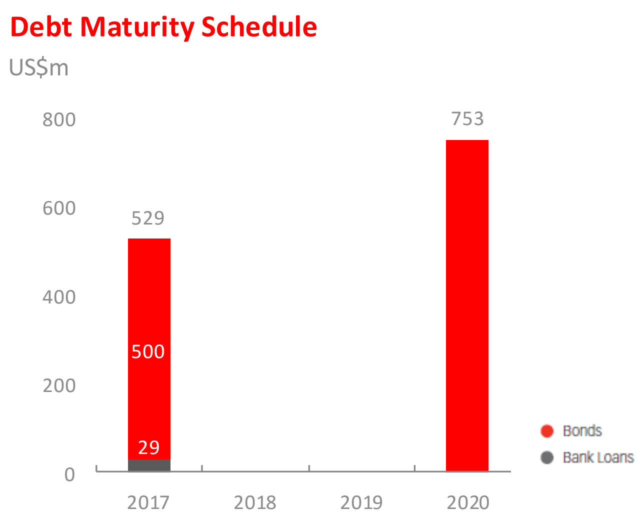
- Operating cash flow of US$390 million was in line with core operating profit after working capital and depreciation adjustments and tax payments
- Capital expenditures of US$68 million
- Net cash proceeds of US$316 million from the strategic divestment of the Asia consumer and healthcare distribution business
- Net interest expenses paid of US$71 million, and distribution to perpetual capital securities holders of US$30 million
- Dividends paid of US$282 million
- Net cash proceeds of US$646 million from the issuance of fixed-for-life coupon perpetual securities

In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$162 million by the end of December 2016, of which US$106 million are earn-out payments to be substantially paid over the course of the next two years. We remain asset-light and our on-going total capital expenditures mainly comprise IT system upgrades, logistics business expansion and continuing maintenance capital expenditures.

Solid Balance Sheet

Our solid balance sheet was enhanced by cash proceeds from the strategic divestment of our Asia consumer and healthcare distribution business and the issuance of perpetual securities. Our cash position was US$985 million as at 31 December 2016 after payments of the 2015 final and 2016 interim dividends. Our total borrowing decreased by US$167 million to US$1,282 million. Our net debt (total borrowings minus cash) decreased by US$810 million with US$297 million outstanding as at 31 December 2016. Our weighted average tenure of total borrowing is over two years. With the issuance of the US$650 million fixed-for-life coupon at 5.25% of perpetual securities, which is treated as equity, we have ample capacity to pay down the US$500 million bond due in May 2017. In addition, we have secured more than US$700 million in committed facilities with tenure up to 2019. The majority of our debt is at a fixed rate and denominated in US dollars. Given the uncertainties in the global macroeconomic and geopolitical environments, we remain cautious in managing our balance sheet while maintaining maximum financial flexibility to provide comfort to our customers and vendors.





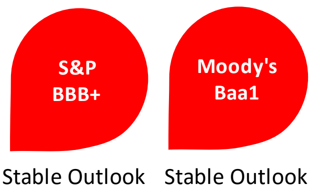
Net Gearing and Net Current Assets

Our net gearing ratio as stated in the consolidated balance sheet was 8% as at 31 December 2016 (31 December 2015: 27%).

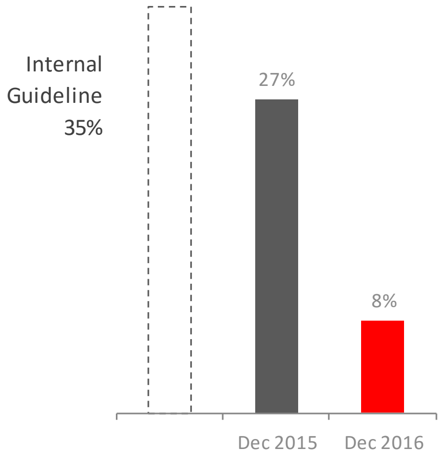
We continued to adopt a conservative approach in managing our balance sheet and capital structure. As at 31 December 2016, our credit rating was Baa1 (stable outlook) according to Moody’s and BBB+ (stable outlook) according to Standard & Poor’s. We are committed to maintaining a solid balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

With the issuance of perpetual securities, our current ratio was 1.1 as at 31 December 2016 (31 December 2015: 1.0).

Credit Rating



Net Gearing Ratio



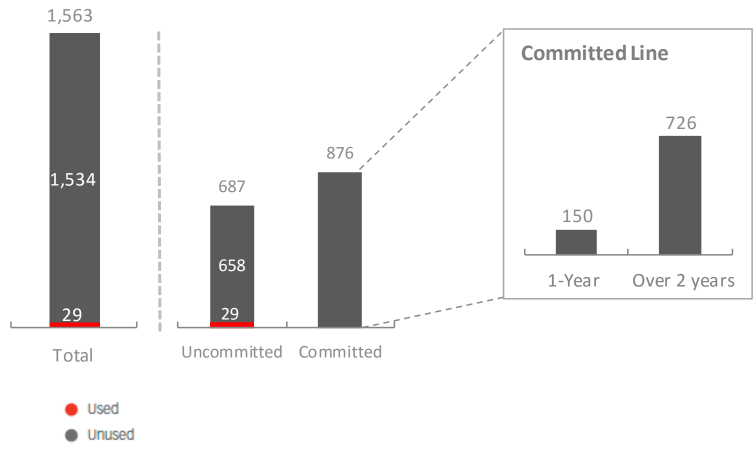
Banking Facilities

Bank Loans and Overdrafts

As at 31 December 2016, we had available bank loans and overdraft facilities of US$1,563 million comprising US$876 million committed and US$687 million uncommitted facilities. US$29 million of our bank loans and overdraft facilities were drawn down. The unused limits on bank loans and overdraft facilities amounted to US$1,534 million; this included US$876 million in unused committed facilities, of which US$726 million were part of the committed facilities with tenure of over two years.

Unused Bank Loans

US$m



Trade Finance

Our normal trading operations are well supported by approximately US$2.5 billion in bank trading facilities, mostly including letters of credit issued to suppliers and bills discounting. Letters of credit are a common means of payment to suppliers to support cross-border trades. Our payment obligations on letters of credit issued to suppliers are only crystallized when our suppliers have delivered the merchandise to our customers or to us, in accordance with the terms and conditions specified in the related contractual documents. As at 31 December 2016, approximately 17% of the trade finance facilities were used.

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our acquired businesses, which are private enterprises relying on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses.

We follow 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 Combinations".

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments, which depend on a set of predetermined performance targets mutually agreed with entrepreneurs in accordance with the sale and purchase agreement.

Earn-out payments are generally payable within three to four years upon completion of a transaction.

Earn-up payments have a high performance target threshold and, if earned, are typically payable over a period of up to five to six years upon completion of a transaction.

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain purchase consideration payables should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale and purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying performance of the acquired businesses could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high performance thresholds of earn-ups are not reached. For the year ended 31 December 2016, there was no write-back of contingent consideration.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash generating units (CGU) that manage acquired businesses in accordance with HKAS 36. Based on our assessment of all of the CGUs under the current operating structure, we have determined that there was no goodwill impairment as at 31 December 2016, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Risk Management

We have 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. Our principal trading business carries a higher credit risk profile given that we are acting as a supplier and therefore take full counterparty risk of our customers in terms of accounts receivable and inventory. In addition, as we provide working capital solutions to our vendors via LF Credit by selectively settling accounts payable earlier at a discount, we also assume direct counterparty risk of our customers for such receivables. With the increased insolvency risk among global brands and retail customers, we have deployed a global credit risk management framework with tightened risk profile, and applied prudent policies to manage our credit risk with such receivables, that include, but are not limited to, the measures set out below:

- We select customers in a cautious manner. Our credit control team has implemented a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on trade terms. It is not uncommon for us to require securities (such as standby or commercial letters of credit, or bank guarantees) from customers who fall short of the required minimum score under our risk assessment system.

- A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis.
- We have established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors.
- We have put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate business managers to step up their efforts in these two areas, and to avoid any significant impact on their financial performance.

Due to the increased credit risk profile of certain customers, we have taken a cautious approach in our provision for accounts receivable, and we will continue to monitor closely the development of the Chapter 11 bankruptcy proceedings of those customers who continue to conduct business as usual during the Chapter 11 process while completing their financial and operational reorganization.

Foreign Exchange Risk Management

Most of our cash balances are HK dollar and US dollar deposits with major global financial institutions and most of our borrowings are denominated in US dollars.

Our revenues and payments are predominantly transacted in US dollars. Therefore, we do not 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 we arrange hedging by means of foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, we fully hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary hedging arrangements in certain currencies against the US dollar. However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US dollar foreign operations for either our income statements or balance sheet reporting purposes. Since our functional currency is the US dollar, we are subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the period of group consolidation. Our net equity investments in non-US dollar-denominated businesses are also 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.

From a medium-to long-term perspective, we manage our operations in the most cost-effective way possible within our global network. We strictly prohibit any financial derivative arrangement merely for speculation.

People

Having an asset light business, our success is highly dependent on our people. We are very proud of and grateful for their expertise, dedication and hard work. As at 31 December 2016, we had a total workforce of 21,510, of which 6,477 were warehouse-related employees for our logistics and distribution businesses. In terms of geography, 3,324 of our people were based in Hong Kong, 8,690 were based in mainland China and 9,496 were based overseas.

Total manpower costs for 2016 were US$970 million, compared with US$1,025 million in 2015, with the majority of the decrease due to the strategic divestment of the Asia consumer and healthcare distribution business in June 2016 as well as sustained efforts in process streamlining and productivity improvement.

Our New Three-Year Plan (2017-2019)

We see the next three years as one of the most exciting periods we have embarked on. We continue to be challenged by increasing uncertainties from geopolitical and macroeconomic events, weak consumer demand, and evolving sourcing and consumption preferences. However, the state of the world and the increasing complexity of the supply chain have created tremendous opportunities. Entering into our new Three-Year Plan, our vision is to build the supply chain of the future, to help our customers navigate the new digital economy and stay competitive. With our vast experience in supply chain management, we are confident that we can help our customers excel in this tumultuous time.

We adopted a zero-based approach in creating this Three-Year Plan and took into consideration the new technologies that are now available to us in the digital economy, including digital devices and platforms and data analytics. In our new plan, we will focus on speed, innovation and digitalization of the supply chain.

In the increasingly digitized world, **speed** is crucial in meeting the demands of our customers, who are operating on shorter order cycles, placing smaller orders and requiring greater flexibility in inventory replenishment. Speed is one of the most important decisions driving our customers' global supply chains. Internally, we aspire to be responsive and fast like start-up companies, by maintaining a simplified structure and employing methods such as rapid prototyping to make quick decisions.

Enhanced **innovation** allows us to deliver higher speed, and to improve our productivity and efficiency by doing things creatively. By innovating business models, we will be able to adapt to the fast-changing environment. We will also increase our efforts in creating new products that help our customers differentiate themselves. We will continue to build upon this with our select product verticals, which allows us to capture new opportunities and enhance margins.

Speed and innovation cannot be fully realized without the **digitalization of the entire supply chain**. We aim to digitalize all the key aspects of the supply chain, from product development, material costing and sampling to manufacturing. A digital supply chain is essential to service a highly digitalized marketplace. It will allow us to create an effective ecosystem that benefits various stakeholders in the supply chain. In fact, our convening power in bringing together diverse players across the supply chain and analyzing their data is a key differentiator. With synchronized data, we can make better decisions on price, quality, working capital, inventory and other efficiencies. By providing end-to-end visibility for our customers and suppliers, Li & Fung will be at the forefront of providing a digital platform. Together with data analytics, it allows us to create value along the entire supply chain.

The digital supply chain, coupled with a better speed-to-market business model, will transform the supply-and-demand dynamics with our customers. As with previous Three-Year Plans, the first year will be the year of investment. In 2017, we will continue to invest in the infrastructure and systems required to achieve our Three-Year Plan goals of speed, innovation and digitalization. As part of our commitment to shareholders, our investments will be funded by our existing cash on hand and operating cash flow, and they will be made prudently and sustainably with a long-term view in mind.

Outlook

As we enter 2017, we expect the global macroeconomic environment to become increasingly unpredictable and complex. Our brand and retail customers continue to face soft consumer demand and uncertainties in global retail. The highly promotional environment is likely to continue in all markets, and retail destocking will persist. Prevailing retailer and brand bankruptcies and widespread store closures will continue to pressure our business. All of these factors will keep affecting our customers' sourcing strategies, which in turn will affect our business. The increasing strength of the US dollar will add further deflationary pressure on our non-US dollar-denominated transactions.

Moreover, the global sourcing landscape is anticipated to become more complex in view of recent geopolitical events. While the full impact of these events is yet to be seen, they are likely to result in changes in global trade agreements. In response to these changes, Li & Fung will continue to optimize its supplier portfolios and sourcing strategies to provide effective solutions to its customers. Amid this challenging backdrop, speed will be increasingly important.

In 2017, we will further capitalize on our product verticals and allow them to have more autonomy by reorganizing them into a separate reporting segment, we will look for white spaces in the industry to grow our business. As an immediate first step in the implementation of the new Three-Year Plan, we will be reorganized into two segments, one focused on services (supply chain solutions and logistics solutions) and the other on products (three product verticals and onshore wholesale businesses), each with a strategic focus and a distinct management team. We will continue converting our strong customer pipeline while maintaining our share of wallet with existing customers. We will also continue to focus on productivity enhancement and cost control. We expect to maintain strong growth momentum in our Logistics Network by accelerating new customer acquisition and capitalizing on further opportunities in our e-logistics business; meanwhile, our global freight management business will benefit from the gradual recovery of global freight rates. As always, we will be prudent in managing our balance sheet, particularly regarding credit risk from our customers given the volatile retail environment.

In the face of a rapidly changing industry, we are maximizing efficiency and operating leverage by optimizing onshore and near-shore sourcing strategies. With these new initiatives, we are able to help vendors navigate supply chain complexity and compliance as production migrates, while helping our customers improve efficiency along their supply chains.

We announce the audited consolidated profit and loss account, audited consolidated statement of comprehensive income and audited consolidated cash flow statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 and the audited consolidated balance sheet of the Group as at 31 December 2016 together with the comparative figures in 2015. The annual results have been reviewed by the Company's audit committee and agreed by the Company's auditor.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**2016** **US$'000**	2015 US$'000
Turnover	*2*	**16,760,632**	18,830,835
Cost of sales		**(14,820,801)**	(16,671,655)
Gross profit		**1,939,831**	2,159,180
Other income		**22,153**	29,645
Total margin		**1,961,984**	2,188,825
Selling and distribution expenses		**(590,993)**	(633,653)
Merchandising and administrative expenses		**(958,993)**	(1,042,748)
Core operating profit	*2*	**411,998**	512,424
Gain on remeasurement of contingent consideration payable	*3*	**-**	116,973
Amortization of other intangible assets	*3*	**(33,801)**	(34,412)
Gain on disposal of business	*3*	**7,871**	-
One-off reorganization costs	*3*	**(5,863)**	-
Operating profit	*2&3*	**380,205**	594,985
Interest income		**16,324**	9,761
Interest expenses			
Non-cash interest expenses		**(3,971)**	(6,662)
Cash interest expenses		**(87,525)**	(92,879)
		(91,496)	(99,541)
Share of profits less losses of associated companies and joint venture		**1,748**	1,570
Profit before taxation		**306,781**	506,775
Taxation	*4*	**(48,521)**	(57,890)
Net profit for the year		**258,260**	448,885
Attributable to:			
Shareholders of the Company		**223,146**	421,046
Holders of perpetual capital securities		**35,687**	30,000
Non-controlling interests		**(573)**	(2,161)
		258,260	448,885

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

	Note	**2016** **US$'000**	2015 US$'000
Earnings per share for profit attributable to the Shareholders of the Company during the year	*5*		
- Basic		**20.7 HK cents**	39.1 HK cents
(equivalent to)		**2.67 US cents**	5.04 US cents
- Diluted		**20.6 HK cents**	39.0 HK cents
(equivalent to)		**2.65 US cents**	5.02 US cents
Dividends	*6*	**249,427**	303,591

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 **US$'000**	2015 US$'000
Net profit for the year	**258,260**	448,885
Other comprehensive expense:		
Item that will not be reclassified to profit or loss		
Remeasurement from post-employment benefits recognized in reserve, net of tax	**(2,991)**	(63)
Total item that will not be reclassified to profit or loss	**(2,991)**	(63)
Items that may be reclassified subsequently to profit or loss		
Currency translation differences*	**(138,906)**	(83,932)
Net fair value gains/(losses) on cash flow hedges, net of tax	**4,373**	(6,077)
Net fair value gains on available-for-sale financial assets, net of tax	**310**	126
Total items that may be reclassified subsequently to profit or loss	**(134,223)**	(89,883)
Total other comprehensive expense for the year, net of tax	**(137,214)**	(89,946)
Total comprehensive income for the year	**121,046**	358,939
Attributable to:		
Shareholders of the Company	**86,480**	332,415
Holders of perpetual capital securities	**35,687**	30,000
Non-controlling interests	**(1,121)**	(3,476)
Total comprehensive income for the year	**121,046**	358,939

* *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.*

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 US$'000	2015 US$'000
Non-current assets			
Intangible assets		**3,896,973**	4,266,863
Property, plant and equipment		**221,550**	241,626
Prepaid premium for land leases		**127**	1,942
Associated companies		**11,005**	10,070
Joint venture		**760**	313
Available-for-sale financial assets		**4,164**	3,854
Other receivables, prepayments and deposits		**27,458**	26,217
Deferred tax assets		**16,419**	36,527
		4,178,456	4,587,412
Current assets			
Inventories		**277,841**	566,002
Due from related companies		**487,033**	486,939
Trade and bills receivable	*7*	**1,547,208**	1,689,413
Other receivables, prepayments and deposits		**206,610**	256,818
Derivative financial instruments		**10,697**	4,272
Cash and bank balances		**985,039**	342,243
		3,514,428	3,345,687
Current liabilities			
Due to related companies		**2,093**	1,038
Trade and bills payable	*8*	**2,083,875**	2,464,785
Accrued charges and sundry payables		**517,234**	601,129
Purchase consideration payable for acquisitions	*9*	**67,794**	86,266
Taxation		**55,711**	56,463
Bank advances for discounted bills	*7*	**22,773**	33,681
Short-term bank loans		**29,180**	95,819
Current portion of long-term notes	*9*	**499,819**	-
		3,278,479	3,339,181
Net current assets		**235,949**	6,506
Total assets less current liabilities		**4,414,405**	4,593,918

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December **2016** **US$'000**	 2015 US$'000
Financed by:			
Share capital		**13,487**	13,487
Reserves		**2,312,057**	2,489,386
Shareholders' funds attributable to the Company's Shareholders		**2,325,544**	2,502,873
Holders of perpetual capital securities		**1,158,687**	503,000
Non-controlling interests		**(1,083)**	4,293
Total equity		**3,483,148**	3,010,166
Non-current liabilities			
Long-term notes	*9*	**753,458**	1,253,823
Purchase consideration payable for acquisitions	*9*	**93,742**	156,236
Other long-term liabilities	*9*	**32,589**	116,420
Post-employment benefit obligations		**22,517**	21,909
Deferred tax liabilities		**28,951**	35,364
		931,257	1,583,752
		4,414,405	4,593,918

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2016 US$'000**	2015 US$'000
Operating activities			
Net cash inflow generated from operations	*10*	**439,258**	608,764
Hong Kong profits tax paid, net of refund		**(6,748)**	(19,040)
Overseas taxation paid		**(42,917)**	(45,796)
Net cash inflow from operating activities		**389,593**	543,928
Investing activities			
Purchases of property, plant and equipment		**(59,239)**	(78,090)
Payments for system development, software, license and other intangible assets		**(8,640)**	(5,299)
Settlement of consideration payable for prior years acquisitions of businesses		**(87,271)**	(102,268)
Disposal of business		**316,196**	-
Proceeds from disposal of property, plant and equipment		**4,879**	4,560
Interest income		**16,324**	9,761
Dividends received from associated companies		**835**	1,436
Investing in a joint venture		**(612)**	(313)
Other investing activities		**(1,494)**	1,379
Net cash inflow/(outflow) from investing activities		**180,978**	(168,834)
Net cash inflow before financing activities		**570,571**	375,094
Financing activities			
Interest paid		**(87,525)**	(92,879)
Net proceeds from issuance of perpetual capital securities, net of transaction costs		**645,500**	-
Distributions made to holders of perpetual capital securities		**(30,000)**	(30,000)
Dividends paid		**(281,961)**	(445,134)
Purchase of shares for Share Award Scheme		**(12)**	(7,300)
Net (repayment)/drawdown of bank loans		**(166,639)**	15,969
Net cash inflow/(outflow) from financing activities		**79,363**	(559,344)
Increase/(decrease) in cash and cash equivalents		**649,934**	(184,250)
Cash and cash equivalents at 1 January		**342,243**	538,529
Effect of foreign exchange rate changes		**(7,138)**	(12,036)
Cash and cash equivalents at 31 December		**985,039**	342,243
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**985,039**	342,243

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Shareholders of the Company							
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2016	**13,487**	**704,618**	**554,903**	**1,229,865**	**2,502,873**	**503,000**	**4,293**	**3,010,166**
Comprehensive income/(expense)								
Profit or loss	**-**	**-**	**-**	**223,146**	**223,146**	**35,687**	**(573)**	**258,260**
Other comprehensive (expense)/income								
Currency translation differences	**-**	**-**	**(138,358)**	**-**	**(138,358)**	**-**	**(548)**	**(138,906)**
Net fair value gains on available-for-sale financial assets, net of tax	**-**	**-**	**310**	**-**	**310**	**-**	**-**	**310**
Net fair value gains on cash flow hedges, net of tax	**-**	**-**	**4,373**	**-**	**4,373**	**-**	**-**	**4,373**
Remeasurement from post-employment benefits recognized in reserve, net of tax	**-**	**-**	**(2,991)**	**-**	**(2,991)**	**-**	**-**	**(2,991)**
Total other comprehensive expense, net of tax	**-**	**-**	**(136,666)**	**-**	**(136,666)**	**-**	**(548)**	**(137,214)**
Total comprehensive (expense)/income	**-**	**-**	**(136,666)**	**223,146**	**86,480**	**35,687**	**(1,121)**	**121,046**
Transactions with owners in their capacity as owners								
Purchase of shares for Share Award Scheme	**-**	**-**	**(12)**	**-**	**(12)**	**-**	**-**	**(12)**
Employee Share Option and Share Award Scheme:								
- value of employee services	**-**	**-**	**22,664**	**-**	**22,664**	**-**	**-**	**22,664**
- vesting of shares for Share Award Scheme	**-**	**9,918**	**(9,918)**	**-**	**-**	**-**	**-**	**-**
Issuance of perpetual capital securities	**-**	**-**	**-**	**-**	**-**	**650,000**	**-**	**650,000**
Transaction costs related to issuance of perpetual capital securities	**-**	**-**	**-**	**(4,500)**	**(4,500)**	**-**	**-**	**(4,500)**
Distribution to holders of perpetual capital securities	**-**	**-**	**-**	**-**	**-**	**(30,000)**	**-**	**(30,000)**
Transfer to capital reserve	**-**	**-**	**479**	**(479)**	**-**	**-**	**-**	**-**
2015 final dividend paid	**-**	**-**	**-**	**(162,670)**	**(162,670)**	**-**	**-**	**(162,670)**
2016 interim dividend paid	**-**	**-**	**-**	**(119,291)**	**(119,291)**	**-**	**-**	**(119,291)**
Disposal of business	**-**	**-**	**-**	**-**	**-**	**-**	**(4,255)**	**(4,255)**
Total transactions with owners in their capacity as owners	**-**	**9,918**	**13,213**	**(286,940)**	**(263,809)**	**620,000**	**(4,255)**	**351,936**
Balance at 31 December 2016	**13,487**	**714,536**	**431,450**	**1,166,071**	**2,325,544**	**1,158,687**	**(1,083)**	**3,483,148**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to Shareholders of the Company							
	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015	13,398	699,476	634,098	1,251,512	2,598,484	503,000	8,594	3,110,078
Comprehensive income/(expense)								
Profit or loss	-	-	-	421,046	421,046	30,000	(2,161)	448,885
Other comprehensive (expense)/income								
Currency translation differences	-	-	(82,617)	-	(82,617)	-	(1,315)	(83,932)
Net fair value gains on available-for-sale financial assets, net of tax	-	-	126	-	126	-	-	126
Net fair value losses on cash flow hedges, net of tax	-	-	(6,077)	-	(6,077)	-	-	(6,077)
Remeasurement from post-employment benefits recognized in reserve, net of tax	-	-	(63)	-	(63)	-	-	(63)
Total other comprehensive expense, net of tax	-	-	(88,631)	-	(88,631)	-	(1,315)	(89,946)
Total comprehensive (expense)/income	-	-	(88,631)	421,046	332,415	30,000	(3,476)	358,939
Transactions with owners in their capacity as owners								
Issue of shares for Share Award Scheme	89	-	(89)	-	-	-	-	-
Purchase of shares for Share Award Scheme	-	-	(7,300)	-	(7,300)	-	-	(7,300)
Employee Share Option and Share Award Scheme:								
- value of employee services	-	-	23,583	-	23,583	-	-	23,583
- vesting of shares for Share Award Scheme	-	5,142	(5,142)	-	-	-	-	-
Distribution to holders of perpetual capital securities	-	-	-	-	-	(30,000)	-	(30,000)
Transfer from capital reserve	-	-	(1,616)	1,616	-	-	-	-
2014 final and special dividend paid	-	-	-	(303,388)	(303,388)	-	(825)	(304,213)
2015 interim dividend paid	-	-	-	(140,921)	(140,921)	-	-	(140,921)
Total transactions with owners in their capacity as owners	89	5,142	9,436	(442,693)	(428,026)	(30,000)	(825)	(458,851)
Balance at 31 December 2015	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166

Notes:

1 Basis of preparation and accounting policies

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(a) New amendments to existing standards adopted by the Group

The following new standards and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2016:

HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 Amendment	Agriculture: Bearer Plants
HKAS 27 Amendment	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

The application of the above 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 financial statements.

Notes:

1 Basis of preparation and accounting policies (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New standards 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 and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods, but the Group has not early adopted them:

HKAS 7 Amendment	Disclosure Initiative[1]
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 Amendment	Clarifications to HKFRS 15[2]
HKFRS 16	Leases[3]
Annual Improvement Project	Annual Improvements 2014-2016 Cycle[1,2]

Notes:

1. Effective for annual periods beginning on or after 1 January 2017
2. Effective for annual periods beginning on or after 1 January 2018
3. Effective for annual periods beginning on or after 1 January 2019
4. Effective date to be determined

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Notes:

1 Basis of preparation and accounting policies (Continued)

Changes in accounting policy and disclosures (Continued)

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

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Notes:

1 Basis of preparation and accounting policies (Continued)

Changes in accounting policy and disclosures (Continued)

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

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of US$426,633,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

Notes:

2 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 more than 250 offices across 40 economies spanning across the Americas, Europe, Africa and Asia Pacific. 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 two global Networks, namely the Trading Network and the Logistics Network. The Trading Network focuses on provision of the global sourcing services via multiple channels, such as buying agent, trading-as-principal for private label merchandise and on-shore wholesale business. The Logistics Network focuses on provision of logistics solutions and freight forwarding services.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit. This measurement basis includes profit of the operating segments before share of results of associated companies and joint venture, interest income, interest expenses, taxation, material gains or losses, which are of capital nature or non-operational related, acquisition related cost. This also excludes any gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items. Other information provided to the Group's management is measured in a manner consistent with that in the financial statements.

Notes:

2 Segment information (Continued)

	Trading Network US$'000	Logistics Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2016				
Turnover	**15,856,738**	**907,307**	**(3,413)**	**16,760,632**
Total margin	**1,650,347**	**311,637**		**1,961,984**
Operating costs	**(1,299,024)**	**(250,962)**		**(1,549,986)**
Core operating profit	**351,323**	**60,675**		**411,998**
Amortization of other intangible assets				**(33,801)**
Gain on disposal of business				**7,871**
One-off reorganization costs				**(5,863)**
Operating profit				**380,205**
Interest income				**16,324**
Interest expenses				
Non-cash interest expenses				**(3,971)**
Cash interest expenses				**(87,525)**
				(91,496)
Share of profits less losses of associated companies and joint venture				**1,748**
Profit before taxation				**306,781**
Taxation				**(48,521)**
Net profit for the year				**258,260**
Depreciation and amortization	**83,935**	**19,359**		**103,294**
31 December 2016				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	**3,471,172**	**686,701**		**4,157,873**

Notes:

2 Segment information (Continued)

	Trading Network US$'000	Logistics Network US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2015				
Turnover	17,906,577	932,170	(7,912)	18,830,835
Total margin	1,909,007	279,818		2,188,825
Operating costs	(1,449,132)	(227,269)		(1,676,401)
Core operating profit	459,875	52,549		512,424
Gain on remeasurement of contingent consideration payable				116,973
Amortization of other intangible assets				(34,412)
Operating profit				594,985
Interest income				9,761
Interest expenses				
Non-cash interest expenses				(6,662)
Cash interest expenses				(92,879)
				(99,541)
Share of profits less losses of associated companies				1,570
Profit before taxation				506,775
Taxation				(57,890)
Net profit for the year				448,885
Depreciation and amortization	95,452	15,123		110,575
31 December 2015				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	3,890,628	656,403		4,547,031

Notes:

2 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	
	2016	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000
United States of America	**10,728,590**	11,653,992	**1,985,433**	2,024,579
Europe	**2,926,251**	3,108,613	**1,066,770**	1,161,115
Asia	**2,042,435**	2,736,321	**907,012**	1,127,532
Rest of the world	**1,063,356**	1,331,909	**198,658**	233,805
	16,760,632	18,830,835	**4,157,873**	4,547,031

Turnover consists of sales of soft goods and hard goods to external customers and logistics income from external customers is as follows:

	2016	2015
	US$'000	US$'000
Soft goods	**10,272,316**	11,069,902
Hard goods	**5,583,818**	6,823,509
Logistics	**904,498**	937,424
	16,760,632	18,830,835

For the year ended 31 December 2016, approximately 13% (2015: 13%) of the Group's total turnover is derived from a single external customer, which is wholly attributable to the Trading Network.

Notes:

3 Operating profit

Operating profit is stated after crediting and charging the following:

	2016 **US$'000**	2015 US$'000
Crediting		
Gain on remeasurement of contingent consideration payable*	**-**	116,973
Gain on disposal of business*	**7,871**	-
Charging		
Cost of inventories sold	**14,820,801**	16,671,655
One-off reorganization costs*	**5,863**	-
Amortization of system development, software and other license costs	**11,517**	14,538
Amortization of other intangible assets*	**33,801**	34,412
Amortization of prepaid premium for land leases	**65**	119
Depreciation of property, plant and equipment	**57,911**	61,506
Loss on disposal of property, plant and equipment, net	**789**	1,679
Operating leases rental in respect of land and building	**164,595**	155,871
Provision for impaired receivables	**53,489**	21,582
Staff costs including directors' emoluments	**970,325**	1,024,684
Net exchange (gains)/losses	**(2,366)**	5,082

* *Excluded from the core operating profit*

Notes:

4 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits 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 to the consolidated profit and loss account represents:

	2016 **US$'000**	2015 US$'000
Current taxation		
- Hong Kong profits tax	**8,669**	9,204
- Overseas taxation	**46,494**	49,094
(Over)/under provision in prior years *(Note)*	**(1,433)**	2,968
Deferred taxation	**(5,209)**	(3,376)
	48,521	57,890

Note: Under provision of taxation in 2015 included a recognition of prior year unrecognized deferred tax assets of US$6,795,000.

5 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders of US$223,146,000 (2015: US$421,046,000) and on the weighted average number of 8,354,893,000 (2015: 8,351,640,000) shares in issue during the year.

The diluted earnings per share was calculated by adjusting the weighted average number of 8,354,893,000 (2015: 8,351,640,000) ordinary shares in issue by 56,573,000 (2015: 38,460,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award 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 Share Options and vesting of Award Shares.

Notes:

6 Dividends

	2016 **US$'000**	2015 US$'000
Interim, paid, of HK$0.11 (equivalent to US$0.014) (2015: HK$0.13 (equivalent to US$0.017)) per ordinary share	**119,291**	140,921
Final, proposed, of HK$0.12 (equivalent to US$0.015) (2015: HK$0.15 (equivalent to US$0.019)) per ordinary share *(Note)*	**130,136**	162,670
	249,427	303,591

Note: At a meeting held on 29 March 2017, the Directors proposed a final dividend of HK$0.12 (equivalent to US$0.015) per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2017.

Notes:

7 Trade and bills receivable

The ageing of trade and bills receivable based on invoice date is as follows:

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 31 December 2016	**1,442,127**	**87,280**	**15,154**	**2,647**	**1,547,208**
Balance at 31 December 2015	1,595,433	83,376	7,900	2,704	1,689,413

The fair values of the Group's trade and bills receivable were approximately the same as their carrying values as at 31 December 2016.

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.

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

Certain subsidiaries of the Group transferred bills receivable balances amounting to US$22,773,000 (2015: US$33,681,000) to banks in exchange for cash as at 31 December 2016. The transactions have been accounted for as collateralized bank advances.

Notes:

8 Trade and bills payable

The ageing of trade and bills payable based on invoice date is as follows:

	Current to 90 days US$'000	91 to 180 days US$'000	181 to 360 days US$'000	Over 360 days US$'000	Total US$'000
Balance at 31 December 2016	**2,003,134**	**60,532**	**10,814**	**9,395**	**2,083,875**
Balance at 31 December 2015	2,365,315	80,822	2,885	15,763	2,464,785

The fair values of the Group's trade and bills payable were approximately the same as their carrying values as at 31 December 2016.

9 Long-term liabilities

	2016 US$'000	2015 US$'000
Long-term bank loans – unsecured	**-**	100,000
Long-term notes – unsecured	**1,253,277**	1,253,823
Purchase consideration payable for acquisitions *(Note)*	**161,536**	242,502
Other non-current liabilities	**32,589**	16,420
	1,447,402	1,612,745
Current portion of long-term notes – unsecured	**(499,819)**	-
Current portion of purchase consideration payable for acquisitions	**(67,794)**	(86,266)
	879,789	1,526,479

Note:
Balance of purchase consideration payable for acquisitions as at 31 December 2016 amounted to US$161,536,000 (2015: US$242,502,000), of which US$105,598,000 (2015: US$181,186,000) was primarily earn-out and US$55,938,000 (2015: US$61,316,000) 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.

Notes:

10 Notes to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash inflow generated from operations

	2016 **US$'000**	2015 US$'000
Profit before taxation	**306,781**	506,775
Interest income	**(16,324)**	(9,761)
Interest expenses	**91,496**	99,541
Depreciation	**57,911**	61,506
Amortization of system development, software and other license costs	**11,517**	14,538
Amortization of other intangible assets	**33,801**	34,412
Amortization of prepaid premium for land leases	**65**	119
Share of profits less losses of associated companies and joint venture	**(1,748)**	(1,570)
Employee share option and share award expenses	**22,664**	23,583
Gain on disposal of business	**(7,871)**	-
Loss on disposal of an associated company	**-**	423
Loss on disposal of property, plant and equipment, net	**789**	1,679
Gain on remeasurement of contingent consideration payable	**-**	(116,973)
Operating profit before working capital changes	**499,081**	614,272
Decrease/(Increase) in inventories	**65,430**	(711)
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	**(62,687)**	161,537
Decrease in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	**(62,566)**	(166,334)
Net cash inflow generated from operations	**439,258**	608,764

CORPORATE GOVERNANCE

The Board 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.

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

The Board is responsible for setting the overall values, standards and strategy of the Group and reviewing its operation and financial performance. 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 our website), which are in line with the Corporate Governance Code of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”):

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

Full details on the Company’s corporate governance practices are set out in the Company’s 2016 Annual Report.

AUDIT COMMITTEE

The Audit Committee met four times in 2016 (with an attendance rate of 100%) to review, with management and the Company’s internal and external auditors, the internal controls and financial matters as set out in the Committee’s written terms of reference and make relevant recommendations to the Board.

In 2016, 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, risk management and internal controls, treasury and financial reporting matters (including the interim and annual financial reports for the Board’s approval)
- updates on the new changes to the Accounting Standards and Corporate Governance Code and the respective impact to the Company
- new requirement on the inclusion of key audit matters in the external auditor’s audit opinion

- emerging risks (particularly credit, global tax regime, cyber security, data privacy and protection, anti-corruption, ethical culture and supply chain sustainability) facing the Group
- renewal of Continuing Connected Transactions
- specific approval for non-audit services provided by our external auditor under the Company's non-audit service policy
- adequacy of resources, qualifications, training programs and experience of employees of the Group's accounting and financial reporting team and internal audit function, as well as their training programs and budgets
- formalization of the internal audit charter.

The Audit Committee has reviewed the annual results for the year ended 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of risk management and internal controls and for reviewing its effectiveness through the Audit Committee.

Based on the respective assessments made by management and the Corporate Governance team and also taking into account the results of the work conducted by the external auditor for the purpose of its audit, the Audit Committee considered that for 2016:

- the risk management and internal controls and accounting systems of the Group were in place and functioning effectively, and were designed to provide reasonable but not absolute 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 financial statements 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 programs and budget of the employees of the Group's accounting and financial reporting and internal audit functions were adequate.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that it 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 2016.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). We have extended such procedures to cover relevant employees who are likely to be in possession of unpublished, price-sensitive information ("Inside Information") of the Group. Relevant employees are also subject to compliance with written guidelines in line with the Model Code. For 2016, specific confirmation of compliance has been obtained from each Director. No incident of non-compliance by Directors and relevant employees was noted in 2016.

We have also established a Policy on Inside Information to comply with our obligations under the Securities and Futures Ordinance and the Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

FINAL DIVIDEND

The Board of Directors recommended to pay to the shareholders final dividend of 12 HK cents (2015: 15 HK cents) per share, for the year ended 31 December 2016 absorbing US$130 million (2015: US$163 million). An interim dividend of 11 HK cents (2015: 13 HK cents) per share was paid by the Company on 20 September 2016.

Dividend distribution for 2016 was benchmarked to the Group's core operating profit. From 2017 onward, the Company's dividend distribution will be benchmarked against the Group's profit attributable to Shareholders.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I & II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong on 1 June 2017 at 11:30 a.m. The Notice of Annual General Meeting will be published on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk and despatched to the shareholders on or about 28 April 2017.

RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

	Hong Kong Time 2017
For determining shareholder's right to attend and vote at the Annual General Meeting	
Record Date *(Note i)*:	25 May
Latest time to lodge transfer documents with share registrar *(Note i)*:	4:30 p.m., 25 May
For determining shareholder's entitlement to the proposed final dividend	
Latest time to lodge transfer documents with share registrar *(Note ii)*:	4:30 p.m., 6 June
Book Closure Date *(Note ii)*:	7 to 8 June
Expected despatch date of dividend warrants:	14 June

Notes:

(i) The record date for determining shareholders' right to attend and vote at the Annual General Meeting is Thursday, 25 May 2017. Shareholders who are entitled to attend and vote at the Annual General Meeting are those whose names appear on the register of members of the Company as at the close of business on Thursday, 25 May 2017. In order to qualify for attending and voting at the Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 25 May 2017.

(ii) The register of members of the Company will be closed from Wednesday, 7 June 2017 to Thursday, 8 June 2017 (both days inclusive), during which no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 6 June 2017.

PUBLICATION OF ANNUAL REPORT

The 2016 annual report will be despatched to the shareholders and available on the Company's website at www.lifung.com and HKExnews website at www.hkexnews.hk on or about 28 April 2017.

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

Hong Kong, 29 March 2017

As at the date of this announcement, Executive Directors of the Company are William Fung Kwok Lun (Group Chairman), Spencer Theodore Fung (Group Chief Executive Officer) and Marc Robert Compagnon; Non-executive Director is Victor Fung Kwok King (Honorary Chairman); Independent Non-executive Directors are Paul Edward Selway-Swift, Allan Wong Chi Yun, Martin Tang Yue Nien and Margaret Leung Ko May Yee.