LI & FUNG LIMITED

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

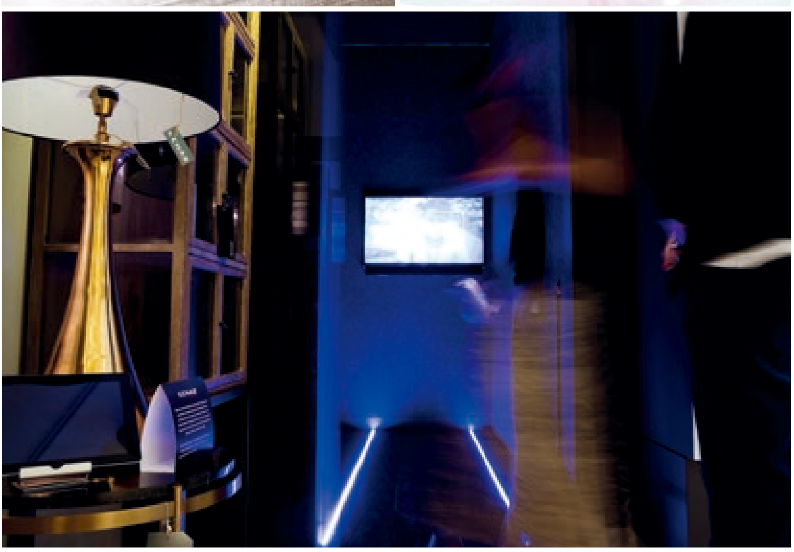
# Creating the Supply Chain of the Future


# 2016 Annual Report







# Contents

# Our new Three-Year Plan (2017-2019)

Our goal is to create the supply chain of the future to help our customers navigate the digital economy and to improve the lives of one billion people in the supply chain.

## Speed

Our goal is to decrease lead times and increase speed to market for our customers. We want to be more agile and produce results more quickly by simplifying processes, using technology and embracing new ways of working with our customers and other industry partners.

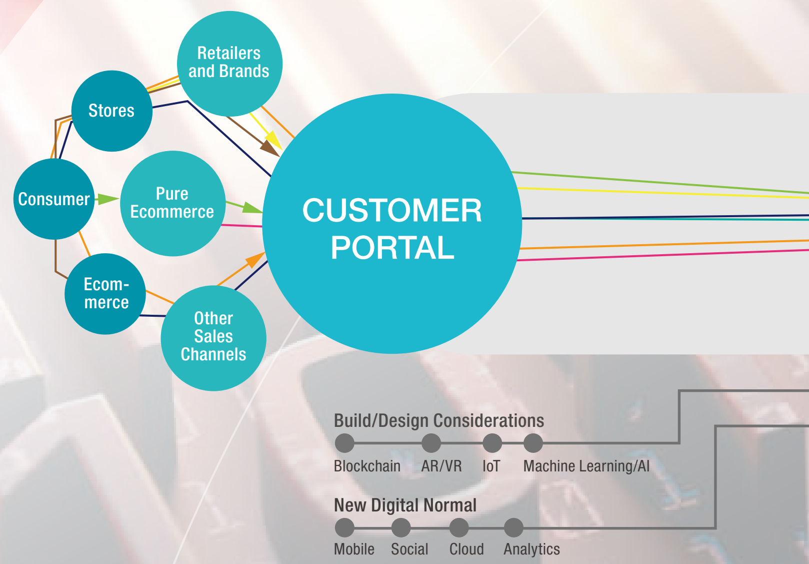
## Innovation

We are embedding innovation not only into our product and service offerings but also in new business models and ways of working with our customers and other ecosystem partners, enabling a culture of open innovation and collaboration.

## Digitalization

To achieve speed and innovation our goal is the digitalization of the entire supply chain. By digitizing key aspects of the supply chain from product development, material costings and sampling, to the final creation and delivery of products, we are creating an end-to-end platform that will make customers' processes more seamless, efficient and cost effective enabling us to deliver data-driven insights and customized services.

## Creating the Supply Chain of the Future



## Our **Values**

Across our business, three core values – entrepreneurship, being humble and family – bring us together and guide our actions. Our values are more than just words. They are meaningful expressions of who we are.

## Sustainable **Governance**

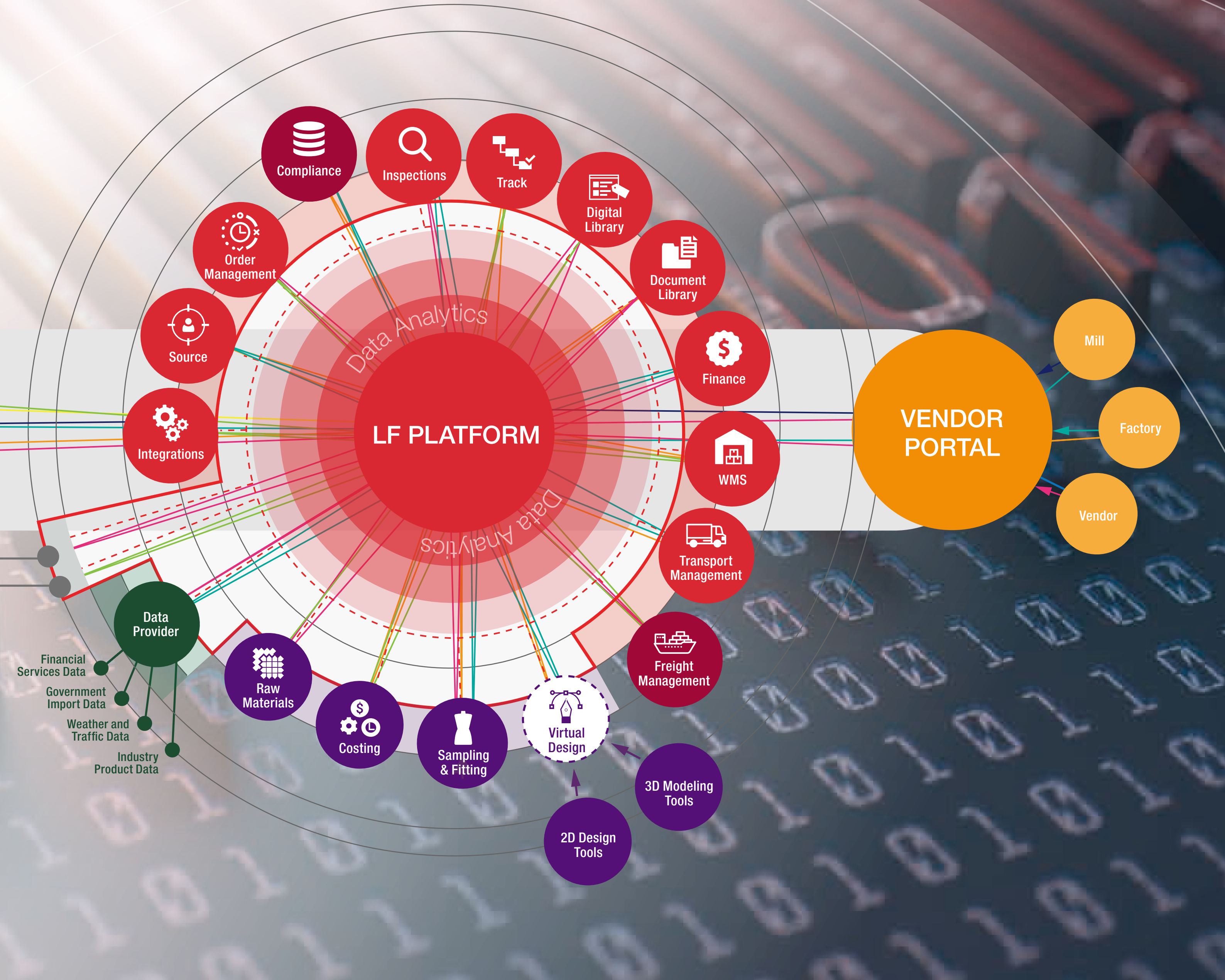
We are committed to the principles of transparency, accountability and independence, enhancing shareholder value.

## **Sustainability** in our Business

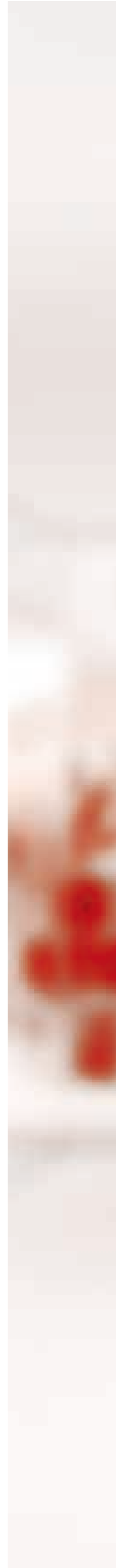
Sustainability is integral to our business and our planning process. When developing our three-year plans, we assess our progress against our sustainability goals, set aspirational targets against best practice benchmarks and take action to meet those benchmarks.

## Our **Purpose**

The Li & Fung Foundation aims to make a difference along the supply chain and in the communities where we live and work. We harness our strengths, global networks, knowledge and some 22,000 people, to make scalable, sustainable positive impact.



# A letter from our Chairman



Dear Shareholders,

Amid challenging market conditions in 2016, Li & Fung continued to execute our strategies of simplifying the business, strengthening the balance sheet and focusing on organic growth. These strategies and efforts reflect our belief in nurturing long-term sustainable growth for the company.

2016 marked the 110th anniversary for Li & Fung. Decade after decade, we have gone through numerous political, business and economic cycles; whereby we maintain our leadership position in global supply chain management for consumer goods. At Li & Fung, we operate on a three-year framework. We will be starting a new Three-Year Plan in 2017. Every three years, we start our plan on a zero base and fundamentally question our existing practices and reinvent ourselves in response to internal and external changes, and formulate innovative strategies to help our customers navigate the present dramatic changes in the major consumer markets.

> **“We are in the best position to transform analog supply chains to digitalized ones.**

## On Global Trade

We are facing a unique period of geopolitical uncertainties which may lead to significant impact on global trade. For instance, the Brexit vote will likely pose challenges for Europe and countries trading with Europe. Similarly, the protectionist stance promoted by the new US President is likely to trigger reverberating consequences to trade with America. Together with the US' withdrawal from the Trans-Pacific Partnership (TPP), potential amendments to the North America Free Trade Agreement (NAFTA) and the proposal for a border tax on imports, all will have a material impact on global trade flows. Brands and retailers will need to reconsider the economics of their entire supply chains amidst greater complexities and uncertainties in the sourcing landscape. With Li & Fung's vast experience, expertise and unrivaled global network, we are well-positioned to help our customers steer and transition through these volatile times.

On a brighter note, we also saw the recent ratification of World Trade Organization's Trade Facilitation Agreement. This multilateral trading agreement is expected to boost global trade as the trade process becomes more transparent, streamlined, predictable and less discriminatory. The import/export process will be shortened as a result, saving time in the supply chain which is in need of shorter order cycles. With China continuing its investment in the One-Belt-One-Road initiative and its push for advancing further trade deals in the APEC region, we expect the relevance and advantages of the current production countries to be sustained for some time, even if cross-border trade is affected by global political dynamics.

While some of these situations are alarming, they also present opportunities for Li & Fung, as historically we always thrived when the sourcing landscape becomes more complex. At testing times like these, our breadth and depth of experience in global supply chain management, together with our extensive global network of vendors, both in competitive developing markets and inside importing countries, are particularly valuable.

William Fung
*Group Chairman*

## On Retail

Over the past few years, the retail market has been adjusting to a sea change of disruptions, including the advent of e-commerce and the development of omni-channel strategies by brick-and-mortar retailers. We believe these developments are positive for the retail industry as ways to service internet-enabled consumers become more varied. At Li & Fung, we are exposed to an array of exciting opportunities from new players and channels in the retail space. Our trading business is increasingly developing and sourcing private label collections for online retailers who recognize the need for product differentiation in order to stay competitive, while our logistics business has seen tremendous growth in its service offerings in the e-logistics business in Asia.

“

**We will transform our core business with a focus on global supply chains for the future.**

On the one hand, even as the retail marketplace becomes highly digitalized, the global supply chains servicing that marketplace remain fundamentally analog. We have been rapidly digitizing and transforming our supply chains to synchronize with this digitized consumer space where speed, ability to iterate, transparency and traceability are key. In the previous Three-Year Plan, Li & Fung has been experimenting with and rolling out technologies that digitize and enhance our supply chains, such as RFID tags that trace individual pieces of products, GPS-enabled quality control coordination, virtual sampling, online product costing, product lifecycle management platforms and digitization of raw material libraries. In the coming Three-Year Plan, our vision is to create a digital platform that will connect these activities along the entire supply chain to maximize efficiency, greatly improve response speed, and provide end-to-end visibility for our customers.

## On our Three-Year Plan

In doing so, we will become a global end-to-end supply chain solutions provider, which can enhance speed, innovation and digitalization along the chain. This vision is at the heart of our new Three-Year Plan for 2017-2019. The consumer space is still rapidly changing and evolving. As a leading orchestrator in the global supply chain, we are in the best position to transform analog supply chains to digitalized ones, in order to serve the digitalized consumer space. In our sourcing services business, we will continue to focus on the development of value-adding supply chain services, which will be an extension of the suite of services that was successfully launched under Vendor Support Services (VSS). We envision this to be a complete transformation of our core supply chain business. On our product-based principal business, our focus will remain on the key product verticals with deep product expertise to supply innovative and technologically-advanced products to our customers. To enable an intense focus on these two arenas, one offering supply chain services and the other marketing and selling of products, our Group CEO, Spencer Fung, will primarily focus on building a digitized state-of-the-art services organization while I will personally take charge of reinventing the products side of the business. Through this reorganization, we will transform our core business with a new focus on global supply chain solutions of the future. This new direction is aligned with our new Three-Year Plan objectives of speed, innovation and digitalization, allowing us to further drive value creation in our customers' supply chains.

## On our Prospects

Our expectations for 2017 continue to be conservative. While the US and European economies are recovering, the global macro situation is becoming more complex and uncertain as a result of ongoing geopolitical tensions. The impact of Brexit on Li & Fung's business is uncertain and is likely to be felt over the next few years. Outlook for the US remains clouded by the possible decisions of the new US government, with potentially extensive and long-term impacts on the US economy and global trade. Any imposition of trade restrictions, such as countervailing tariffs or new border-based import taxes, will require urgent re-examination of the supply chain economics for our US customers along with the probable need to alter their sourcing strategies and/or production countries, including potentially production back onshore in the US. However, for product categories such as apparel and footwear, we do not foresee significant decanting of production from Asia in the short term due to the lack of appropriate labor, production expertise and raw materials in the US. We believe the costs of such trade restrictions, if enacted, will eventually be transferred to consumers who will likely bear the consequences of higher prices. On a more positive note, the deflation of input prices is anticipated to flatten, providing some support to our agency revenue. Global freight rates are expected to gradually recover, benefitting our logistics business, while the demand for e-logistics services will continue to increase on the back of growing e-commerce activities.

Li & Fung will continue to focus on building a sustainable business which can ride through various business cycles. We will continue to develop deep product expertise through our existing product verticals, while incubating others with good potential. These product verticals have achieved strong growth in 2016, and we expect them to continue to do so in the coming years. Our logistics business will continue its geographical expansion and customer acquisition to deliver robust growth momentum, continuing so by taking market share. Our stringent cost control initiatives in every part of the business will continue in 2017 and are expected to drive further efficiency and productivity across the organization.

I would like to extend my gratitude to our colleagues for their contribution and hard work over the past year, and for their commitment to the long-term success of Li & Fung.

Yours sincerely,

**William Fung Kwok Lun**
Group Chairman

# A letter from our CEO

Dear Shareholders,

## 2016 Overview

2016 marked the end of our Three-Year Plan for 2014-2016. At the beginning of this Three-Year Plan, we set ourselves three goals: 1) building a sustainable enterprise, 2) simplifying our business and 3) focusing on organic growth. Against a very tough operating environment, we had resilient performance of our business and we were able to achieve these goals, setting the long-term foundation of the company by investing in people, infrastructure and culture; streamlining the company by spinning off Global Brands Group and strategically divesting our Asia consumer and healthcare distribution business; and driving organic growth for our existing business.

During this time, we restructured our teams to focus more on our core customers to drive organic growth. As our customers are more and more challenged by the rapidly changing retail environment, they are increasingly looking to us for supply chain solutions beyond the scope of traditional sourcing. Our customers' demand for innovative products has led to the creation of our asset-light product verticals that provide differentiated products and have successfully enhanced our margins. On top of that, our Vendor Support Services was a success; having exceeded the 5% COP target in 2016. Our logistics business, driven by e-commerce logistics, continued to enjoy double-digit growth despite a difficult environment in Asia. In 2016, we also decreased overall expenses through productivity increases and cost control measures. We strategically divested our Asia consumer healthcare and distribution business and towards the end of 2016, we further strengthened our cash position by issuing US$650 million in perpetual securities, which brought our cash balance close to US$1 billion. This will allow us greater financial flexibility going forward. We have laid the foundation for our new Three-Year Plan on the successes of our 2016 initiatives.

**“Our goal is to build the Supply Chain of the Future to help our customers navigate the digital economy.**

## New Three-Year Plan (2017-2019): Building the Supply Chain of the Future

We have just launched our new Three-Year Plan for 2017-2019, where our goal is to build the Supply Chain of the Future to help our customers navigate the digital economy. We will do this by focusing on speed, innovation and digitalization.

In developing this Three-Year Plan, we scanned the environment around us for the rapid changes that are causing disruptions in the industry and the world around us. We see that the retail industry globally is going through a seismic shift where many traditional brick and mortar retailers are experiencing an unprecedented era of change. There is a lot of pressure coming from different sectors including pure e-tailers, fast fashion, clubs, off-price, value and discount sectors. Retailers are increasingly looking for supply chains that are optimized for speed rather than the traditional low-cost model. Technology is also changing the way consumers behave by using new mobile and cloud-based tools to discover and shop for products.

Apart from changes in the industry, we also scanned the broader environment to understand the new technologies and tools that allow traditional businesses to transact in ways that was never possible before. Several areas that we are exploring include the use of data and analytics, 3D printing, artificial intelligence, and blockchain to drastically improve the transaction cost, speed and automation of our existing supply chain processes. Many of these technologies are exponential as opposed to the linear nature of our traditional industry and offer plenty of opportunities as well as risks to all traditional companies engaged in supply chains.

With the understanding of the new environment, we then adopted a zero-based approach and asked ourselves what it would take to transform Li & Fung into a company that successfully capitalizes on all the changes and new exponential technologies by 2019. The supply chains of today are mostly analog and fragmented and there are a lot of inefficiencies. Our goal is to build the Supply Chain of the Future by fully digitalizing the current supply chain and synchronizing the data end-to-end to drive new efficiencies that were not possible before in an analog world.

> **We want to make a positive impact to the lives of a billion people in the supply chain.**

### Speed

With the world now moving at a higher speed and still accelerating, we expect the world to be moving a few times faster by 2019. Our traditional supply chain is built to optimize for cost, but now we see most retailers focusing on supply chains that are optimized for speed. From our experience of working with a large variety of global retailers, we are now providing more value-added services to our customers to advise them on improving the speed of their supply chain and as a result allowing them to improve their sales, margin, mark-down and inventory. Internally, we are also becoming more agile and we have an aspiration to move as fast as a small start-up company, reducing processes from months down to hours. We believe that in the future, companies who are able to move fast and react to changes in the environment quickly will win.

### Innovation

Because of the speed of the environment, innovation is becoming more critical. We want to help our customers innovate their products, to ensure that they always have something new and differentiated in their stores so that they can improve their margin and sell through. Furthermore, we want to differentiate and to innovate new business models and new ways of working with our customers. As a traditional industry, we need to constantly reinvent our business models to adapt to the fast-changing environment.

### Digitalization

Finally, with consumers becoming ever more digital, our industry's supply chains must be upgraded. We are leading the effort to digitalize our global supply chain, resulting with an end-to-end stream of synchronized supply chain data where we will use advanced analytics to improve speed, cost, lead time, working capital, inventory, sustainability and traceability for all the partners in our ecosystem. This end-to-end digital supply chain, coupled with a better speed-to-market business model, will allow our customers to transform the value chain into a responsive demand chain that can "pull" on-trend products to sell at full prices with lower mark-downs.

Our Three-Year Plan requires a change in mindset and a digital transformation of our business from developing new digital skillsets and employing high-caliber digital natives from inside and outside our industry, to working with uncommon partners in our ecosystem. We are all very excited about the transformation our business is undertaking. As we start to create the Supply Chain of the Future, we are also looking forward to making a positive impact to the lives of a billion people in the supply chain. We are all extremely excited about this new journey and I look forward to sharing more progress with you in the near future. Thank you for your patience and support and please let us know if you have any ideas or suggestions as we embark on our new journey.

Yours sincerely,

**Spencer Fung**
Group CEO

# Summary of the year

## 2016 GROUP OVERVIEW

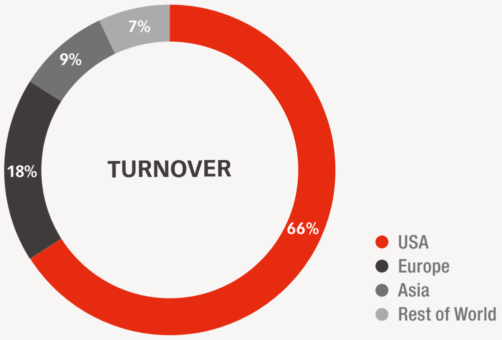
US$ 16,195M
TURNOVER*

US$ 1,875M
TOTAL MARGIN*

US$ 408M
CORE OPERATING PROFIT*

### GROUP GEOGRAPHICAL MARKET TURNOVER*

US$ 16,195M




### EARNINGS PER SHARE (BASIC)

20.7 HK cents | 2.67 US cents

### DIVIDENDS PER SHARE (TOTAL)

23.0 HK cents | 2.96 US cents

### OPERATING CASH FLOW

US$ 390M

### CASH AND BANK BALANCES

US$ 985M

### GEARING RATIO

8%

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

## OUR SUPPLY CHAIN

15,000+
SUPPLIERS WORLDWIDE

### TOP FIVE SOURCING COUNTRIES

China
Vietnam
Bangladesh
Indonesia
India

5,824
WEBSITE VISITS
Sustainability Resource Center website

630+
TRAINING SESSIONS
8,247 factory representatives and 3,579 employees attended

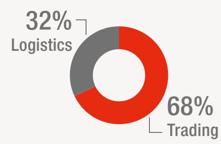
## OUR PEOPLE

**21,510**
EMPLOYEES WORLDWIDE

**57%** FEMALE
**43%** MALE

**49%**
OF OUR MANAGEMENT WORLDWIDE IS FEMALE

### OUR WORKFORCE




## OUR GLOBAL PRESENCE


**40+**
ECONOMIES

We operate an extensive global supply chain network in more than 250 offices and distribution centers around the world, working with our vendor base of 15,000 suppliers to add value to our global brand and retail customers.

## OUR COMMUNITIES

**395** ACTIVITIES

OUR PEOPLE VOLUNTEERED **16,500+** times

**72** LOCATIONS in **28** COUNTRIES participated in community initiatives

**19,500+** VOLUNTEER HOURS

almost **15,000** WORKING HOURS

**5,000+** NON-WORKING HOURS

## OUR FOOTPRINT

**-480** PRINT DEVICES reduced in offices across Cambodia, Guatemala, Hong Kong, Indonesia, Philippines, Sri Lanka, Thailand and Vietnam

**13** LEED/BREEAM sustainable building certifications

## RECOGNITION

THE GLOBAL COMPACT
WE SUPPORT

FTSE4Good

Hang Seng Corporate Sustainability Index Series Member 2015-2016

Member 2016/2017
STOXX
ESG LEADERS INDICES

# Our performance

## 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.

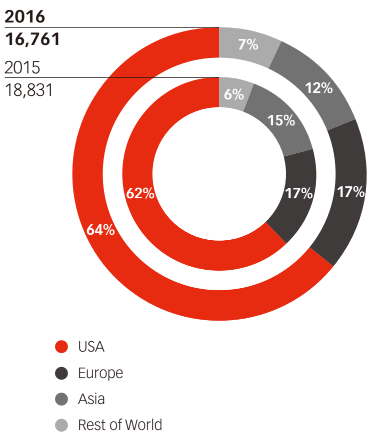
## Reported Results and Results Excluding the Asia Consumer and Healthcare Distribution Business

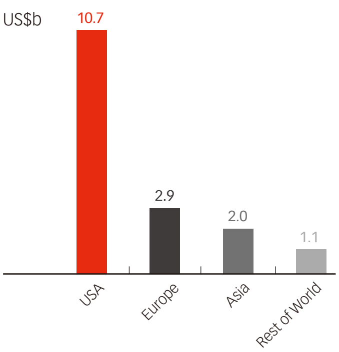
| | **Reported** | | | **Excluding the Asia Consumer and Healthcare Distribution Business*** | | |
|---|---|---|---|---|---|---|
| | **2016 US$m** | 2015 US$m | Change % | **2016 US$m** | 2015 US$m | Change % |
| Turnover | **16,761** | 18,831 | (11.0%) | **16,195** | 17,667 | (8.3%) |
| Total Margin | **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*

## 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*

### 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.

### 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.

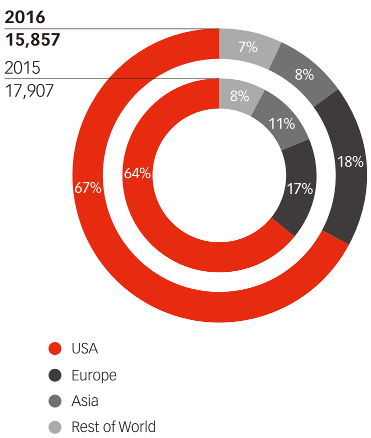
## PROFIT ATTRIBUTABLE TO SHAREHOLDERS

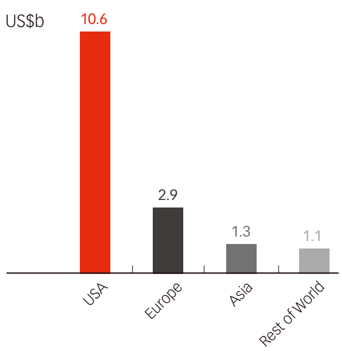
Our 2016 profit attributable to Shareholders of US$223 million does not include any write-back of consideration payable, while last year's included US$117 million of write-back. Accordingly, our reported profit attributable to Shareholders decreased by 47.0% year on year. Excluding the write-back of 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 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*

### 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.

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

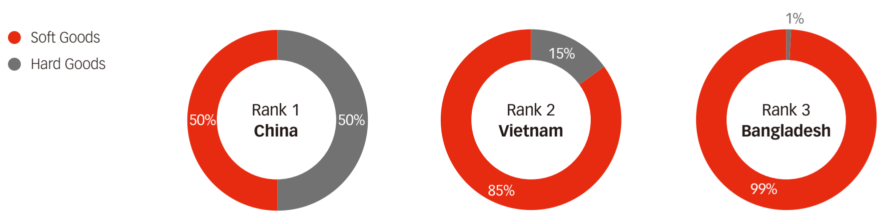
Operating costs in our Trading Network declined by 10.4% to US$1,299 million, which was mainly due to productivity gains and the strategic divestment of the Asia consumer and healthcare distribution business. Excluding the impact of the divestment, operating costs in the Trading Network declined by 4.4% 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 a 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 our established e-logistics expertise as well as our 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 one million square feet is one of the largest and most modern logistics facilities in Asia.

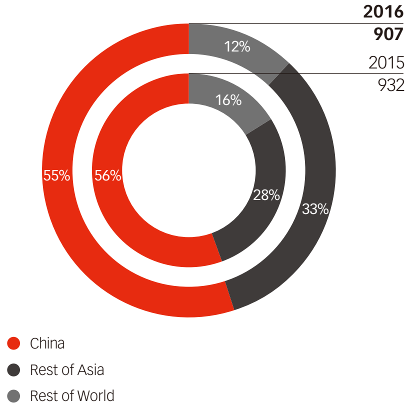
Our global freight management business continued to feel pressure from low freight rates across all routes. Despite a mild recovery late last year, average freight rates in 2016 were approximately 15% lower than those in 2015, which adversely affected our top-line. However, we grew our unit volume by 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.

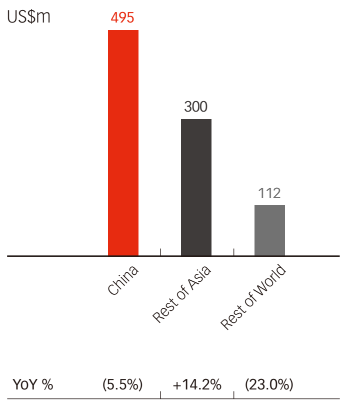
## CORE OPERATING PROFIT

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.

### Logistics Network Geographical Market Turnover

US$m



## 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

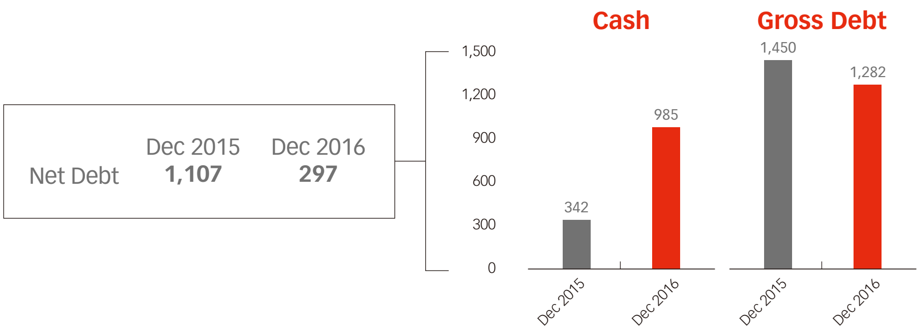
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$162 million by the end of December 2016, of which US$106 million are earn-out payments to be substantially paid over the course of the next two years. We remain asset-light 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.

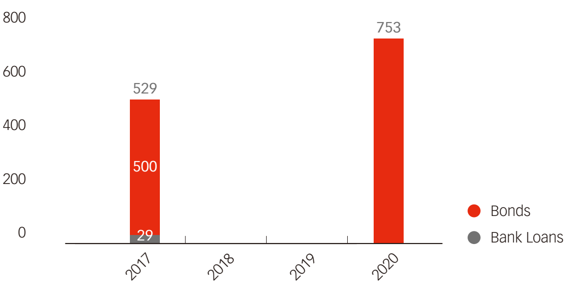
### Cash and Gross Debt

US$m




### Debt Maturity Schedule

US$m

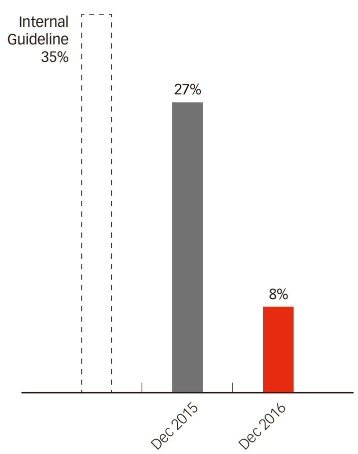


## Credit Rating

**S&P BBB+**
Stable Outlook

**Moody's Baa1**
Stable Outlook

## Net Gearing Ratio




## 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).

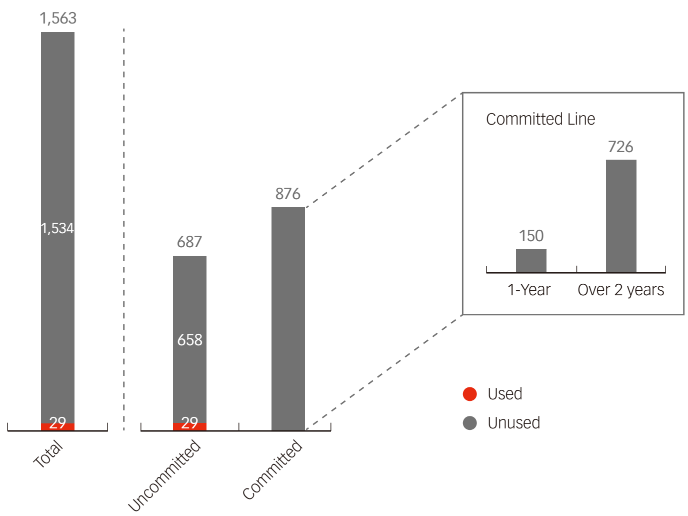
# Banking Facilities

## 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.


LIFUNG TOW


# Our commitment to good governance

We are committed to the principles of transparency, accountability and independence to enhance shareholder value.

# Our commitment to good governance

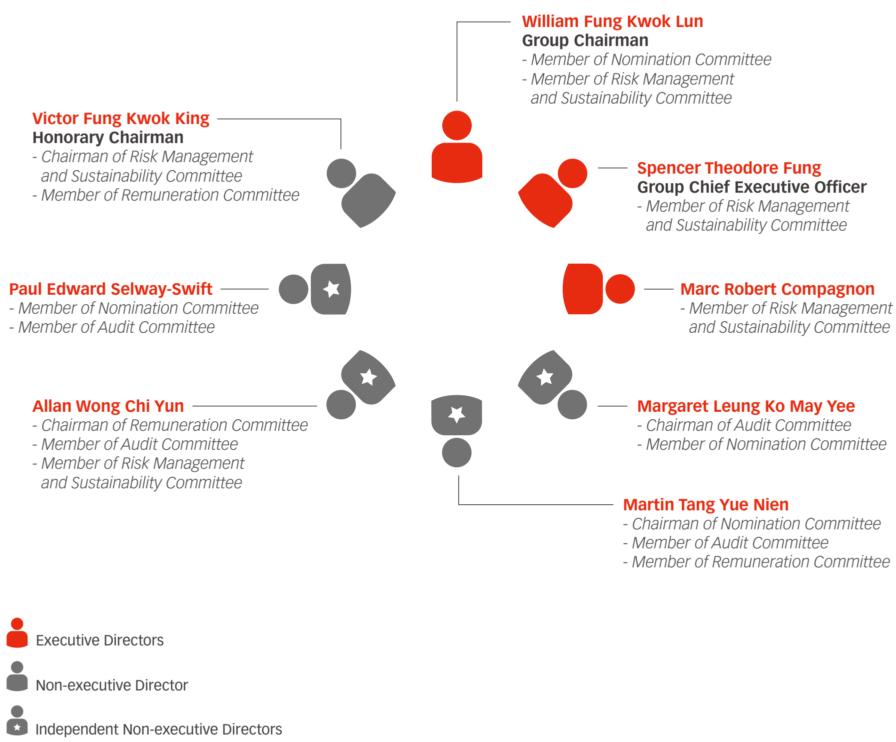
The Board and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence.

## The Board

### Board Composition

The Board is currently composed of three Executive Directors, one Non-executive Director and four Independent Non-executive Directors. While the Board considers that this composition remains balanced and able to reinforce a strong independent review and monitoring function of overall management practices, the Board has taken steps to identify additional Independent Non-executive Directors with due regard for the benefits of diversity on the Board. Directors' biographical details and relevant relationships are set out in "Our Board and management team" section on pages 62 to 73.

List of Directors and their Roles and Functions



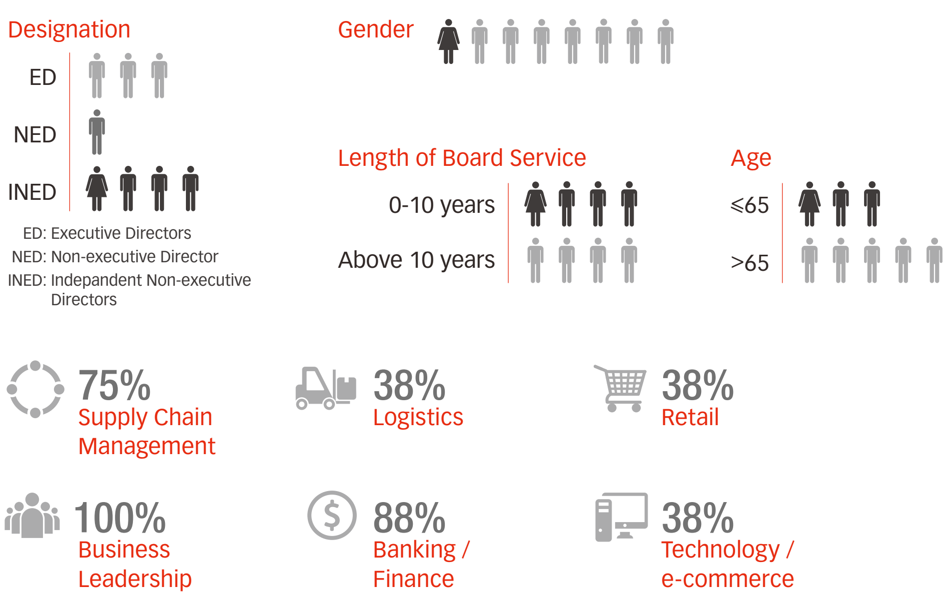
## Board Diversity

We believe board diversity enhances decision-making capability, allowing for different perspectives, and that a diverse board has the breadth and depth of skills and experience to steer and oversee the dynamic and emerging business of the Group. We recognize that board diversity is a vital contributing element to the sustainable development and growth of the Group. This also promotes the interests of all our stakeholders, particularly the long-term interests of our Shareholders, fairly and effectively.

The Board adopted a Board Diversity Policy in 2013 which sets out the approach to diversify the Board. Under the Policy, the Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of a new Director when necessary. In designing the Board's composition, the Nomination Committee considers 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 Group's business model and specific needs from time to time in determining the optimum composition of the Board.

Visit our website to read our Board Diversity Policy.

The profile of our Board members and their broad range of experience and skills are as follows:



## Group Chairman and Group Chief Executive Officer

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.

| | |
|---|---|
| Group Chairman | Responsible for ensuring the Board is functioning properly, with sound corporate governance practices and procedures |
| Group Chief Executive Officer | Responsible for managing the Group's business, including the implementation of strategy and initiatives, with the support of 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 the overall values, standards and strategy of the Group and reviewing its operation and financial performance.

The Non-executive Directors (the majority of whom are independent) bring diverse industry expertise and advise management on strategy, ensure that the Board maintains high standards of financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of Shareholders and the Company as a whole.

## Matters Reserved for Decision or Consideration by the Board

While specific functions are delegated to Board Committees and day-to-day operations to management, matters which have a critical bearing on the Group are specifically reserved for decision or consideration by the Board, including:

- Directors' appointments, reappointments and removals
- Constitution, composition and terms of reference of Board committees
- Overall Group strategy
- Major acquisitions and disposals
- Appointment of the Group Chairman and Group Chief Executive Officer
- Annual budgeting and monitoring of performance against budget
- Annual and interim reports
- Major financing arrangements or commitments
- Oversight of risk management and internal control systems and reviewing their effectiveness
- Ensuring relevant statutory and regulatory compliance
- Any significant operational and financial matters
- Any major corporate governance issue

## Delegation to Management

Operational responsibilities delegated by the Board to management, include:

- Preparation of the annual and interim financial statements 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
- Compliance with relevant statutory requirements, rules and regulations

## Board Evaluation

The Board recognizes the importance and benefit of conducting regular evaluations of its performance to ensure effectiveness. Since 2013, the Board has adopted a structured process to evaluate its own performance and directors' contribution on an annual basis, including a self-evaluation questionnaire to each Director seeking views on the overall performance of the Board and its committees, its composition, conduct of Board meetings, provision of information and areas for improvement. The responses are analyzed and discussed by the Board and suggestions are incorporated to improve corporate governance. The results of the 2016 Board evaluation indicated that the Board and its committees continue to function satisfactorily and the committees fulfilled their duties as set out in their terms of reference. While the Directors are satisfied that the Board and its committees have the right mix of expertise, experience and skills, they have also made constructive suggestions to further enhance Board composition.

## Independence of Non-executive Directors

Each year the Board receives written confirmation from each Independent Non-executive Director of their independence and is satisfied of their independence for 2016. This assessment of the independence follows the guidelines set out in Chapter 3 of the Listing Rules and is delegated by the Board to the Nomination Committee.

Independent Non-executive Directors are required to inform the Company 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 the responsibility to select and recommend candidates for directorship. The Nomination Committee has established guidelines to assess the candidates in line with the Board Diversity Policy. The guidelines emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company, and other forms of diversity such as gender, ethnicity and age.

The Company may in general meeting by ordinary resolution of the Shareholders 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 as determined by the Shareholders. If a Shareholder 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 must serve 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 by Shareholders are available on our website.

Except for Paul Edward 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 meetings. Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire and be eligible for re-election at each annual general meeting, provided that each Director is subject to retirement by rotation at least once every three years. In addition, 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 following annual general meeting and then be eligible for re-election.

To further reinforce accountability, any further reappointment of an Independent Non-executive Director who has served the Board for more than nine years will be subject to separate resolution to be approved by Shareholders.

## Induction and Ongoing Development

While we recognize that the majority of the Directors' personal and professional development arises from their on-the-job experience, our Directors also participated in professional training to enhance and refresh their knowledge and skills for discharging their duties and responsibilities.

All Directors were informed on a timely basis of major changes that may have affected the businesses, including relevant rules and regulations. Since 2003, we have implemented an annual Board training program to update the Directors (in particular Independent Non-executive Directors) on the macroeconomics, business environment and regulatory requirements relevant to our operations. Board meetings outside of Hong Kong, coupled with briefings and office tours have been conducted since 2004. In 2016, a Board meeting and briefing was conducted in Guangzhou, China.

In addition, each newly-appointed Director receives a tailored induction program that includes an overview by the Group Chairman and meetings with management and the Company's external legal advisor on Directors' legal role and responsibilities.

All Directors are required to provide their training records annually. In 2016, all Directors attended the arranged training sessions and gave, or attended, speeches at external seminars/training sessions.

## Independent Reporting of Corporate Governance Matters

The Board recognizes the importance of independent reporting of corporate governance matters. The Group Chief Compliance and Risk Management Officer, as appointed by the Board, was invited to attend Board and committee meetings in 2016 to advise on corporate governance matters covering risk management and relevant compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

To further enhance communication between the Group Chairman and the Non-executive Directors, four separate meetings were held in 2016 without other Executive Directors present. Written procedures are also in place for Directors to seek independent professional advice in performing their duties at the Company's expense. No requests for independent professional advice were made in 2016.

## Liability Insurance for the Directors

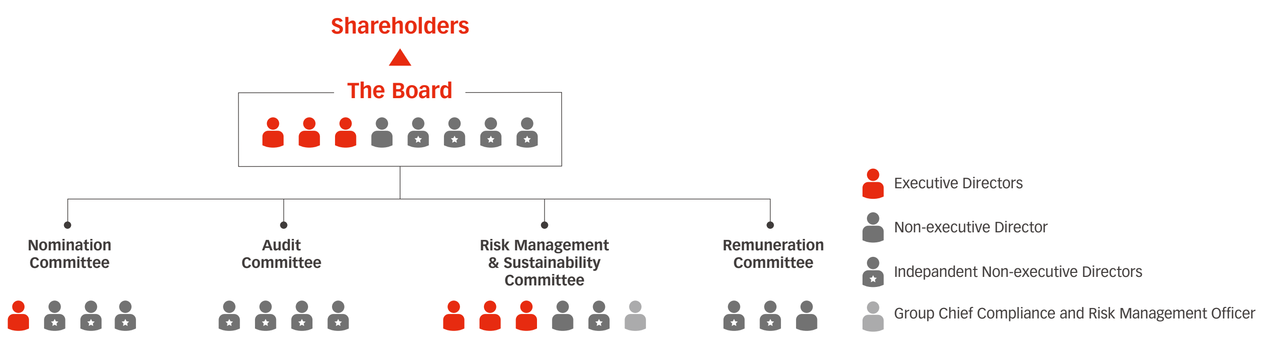
Details of liability insurance to indemnify the Directors for their liabilities arising out of corporate management activities are disclosed in the "Report of the Directors" section on page 137.

## Board and Committee Meetings

Regular Board and Board committee meetings are scheduled a year in advance to facilitate maximum attendance. The agenda is set by the Group Chairman in consultation with members of the Board and the committee meeting agendas are set by the respective committee chairman. Senior management is typically invited to join Board meetings to enhance communication. The external auditor attended the 2016 annual general meeting to answer any questions from Shareholders on the audit of the Company.

In 2016, the Board held eight meetings with an average attendance rate of 98%. Below is a summary of the Board and committee composition, and meetings held in 2016.

### The Board and Shareholders



## Board and Committee Meetings for Year 2016 – Number of Meetings Attended/Held

| | Board | Nomination Committee | Audit Committee | Risk Management and Sustainability Committee | Remuneration Committee | Annual General Meeting |
|---|---|---|---|---|---|---|
| Victor Fung Kwok King [1] | 8/8 | N/A | N/A | 4/4 | 2/2 | 1/1 |
| Paul Edward Selway-Swift [2] | 8/8 | 5/5 | 4/4 | N/A | N/A | 0/1[11] |
| Allan Wong Chi Yun [3] | 8/8 | N/A | 4/4 | 3/4[10] | 2/2 | 1/1 |
| Martin Tang Yue Nien [4] | 7/8[10] | 4/5[10] | 4/4 | N/A | 2/2 | 1/1 |
| Margaret Leung Ko May Yee [5] | 8/8 | N/A | 4/4 | N/A | N/A | 1/1 |
| William Fung Kwok Lun [6] | 8/8 | 5/5 | N/A | 4/4 | N/A | 1/1 |
| Spencer Theodore Fung [7] | 8/8 | N/A | N/A | 4/4 | N/A | 1/1 |
| Marc Robert Compagnon | 8/8 | N/A | N/A | 4/4 | N/A | 1/1 |
| Jason Yeung Chi Wai | 8/8[8] | 4/5[8] | 4/4[8] | 4/4 | 1/1[8] | 1/1[8] |
| **Average Attendance Rate** | **98%** | **93%** | **100%** | **96%** | **100%** | **88%** |
| **Dates of Meeting** | 17/3/2016<br>2/5/2016[9]<br>6/5/2016[9]<br>19/5/2016<br>25/8/2016<br>26/10/2016[9]<br>14/11/2016<br>29/12/2016[9] | 16/3/2016<br>18/5/2016<br>24/8/2016<br>15/9/2016<br>14/11/2016 | 16/3/2016<br>18/5/2016<br>24/8/2016<br>14/11/2016 | 21/1/2016<br>18/5/2016<br>9/8/2016<br>11/10/2016 | 18/5/2016<br>14/11/2016 | 19/5/2016 |

1. Honorary Chairman, and Chairman of the Risk Management and Sustainability Committee
2. Stepped down as Chairman and continued to be a member of the Nomination Committee since 15 November 2016
3. Chairman of the Remuneration Committee
4. Chairman of the Nomination Committee since 15 November 2016
5. Chairman of the Audit Committee, and has been appointed as a member of the Nomination Committee with effect from 29 March 2017
6. Chairman of the Board
7. Group Chief Executive Officer
8. Attended Board and Committee meetings as a non-member
9. Held by telephone conference
10. Due to commitments overseas and/or other business engagements, Allan Wong Chi Yun and Martin Tang Yue Nien did not attend a Board and/or committee's meeting
11. Paul Edward Selway-Swift did not attend the annual general meeting as he was abroad

## 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 our website), which are in line with 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 its responsibilities. Minutes of all committee meetings are circulated to all Board members. To further reinforce independence and effectiveness, since 2003, 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. Details and reports of the Committees are below.

## Nomination Committee

The Nomination Committee was established in 2001 and has been chaired by an Independent Non-executive Director since 2011. Its 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, identification of suitably qualified individuals to become Board members, selecting or making recommendations to the Board on the selection of individuals nominated for directorships, and monitoring the training and continuous professional development of Directors and senior management.

The Committee met five times in 2016 (with an attendance rate of 93%) and was responsible for:

- Reviewing the structure, size, composition and balance of the Board, including diversity, the retirement of Directors by rotation, the reappointment of retiring Directors at the 2016 annual general meeting and the identification of potential candidates to fill Board vacancies
- Assessing the independence of Independent Non-executive Directors
- Monitoring 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. The Committee includes members with appropriate accounting or related financial management expertise as required under the Listing Rules.

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

Following international best practices, the Committee conducts annual review of its effectiveness by completing a detailed audit committee best practices checklist to review its current practices. Similar self-assessment exercises have been conducted regularly since 2005. Based on the latest results of these assessments, the Committee believes it is functioning effectively.

### WHISTLEBLOWING ARRANGEMENTS

The Audit Committee also ensures that proper whistleblowing arrangements are in place so that 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 a fair and independent investigation and the appropriate follow-up action. Under our Guidelines on Whistleblowing/Reporting of Concerns, employees can report these concerns to either senior management or the Group Chief Compliance and Risk Management Officer.

Any Shareholders or stakeholders including customers and suppliers can also report similar concerns by writing in confidence to our Group Chief Compliance and Risk Management Officer. All concerns reported under our whistleblowing guidelines are handled confidentially. We support those who in good faith report genuine concern on potential or actual breaches of the Company's Code of Conduct and Business Ethics (Code) and any possible improprieties in any matters related to the Group. We do not tolerate any kind of retaliation against those who raise genuine concerns or participate in the investigation.

In 2016, two incidents of fraud were reported to police and the respective losses are being claimed under insurance. No incidents of fraud or misconduct were considered having material effect on the Company's financial statements or overall operations.

Visit our website to read about our Code.

### EXTERNAL AUDITOR'S INDEPENDENCE

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

A policy on the provision of non-audit services by the external auditor has been established since 2004. Under this policy, certain specified non-audit services are prohibited and 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 2016, the external auditor provided permitted non-audit services mainly in financial reporting system enhancement and tax compliance services. The nature and ratio of annual fees to the external auditor for non-audit services and for audit services in 2016 have been scrutinized by the Audit Committee (Refer to details of fees to auditor in *Note 4* to the "Financial statements" on page 179).

The external audit engagement partner is also subject to periodical rotation of not more than seven years. In addition, we have adopted the policy that subject to prior approval by the Audit Committee, no employees or former employees of the external auditor can be appointed as a Director or senior executive of the internal audit or finance division of the Group, within 12 months of his/her employment by the external auditor.

Prior to the commencement of the audit of 2016 financial statements, the Committee received written confirmation from the external auditor as to 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 2017 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 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 its 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 2016 (with an attendance rate of 96%) and reviewed the following:

- Risk management procedures pertinent to the Group's significant operations
- Receivables management, credit risk management, inventory management, goodwill assessment, tax compliance issues, litigation exposures, post-acquisition integration, other operational and financial risk management
- Significant non-compliance, if any, with our policies and our Code as well as corporate responsibility and sustainability

In addition, the Committee specifically discussed the management of cyber security risks and related insurance coverage.

## 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 terms of reference include making recommendations to the Board for approval on the remuneration policy for all Directors and senior management, including the granting of Share Options and Award Shares to employees under the Company's share option schemes and Share Award Scheme, and determining the remuneration packages of individual Executive Directors and senior management.

The Committee met two times in 2016 (with an 100% attendance rate) to review and determine the Directors' fee for the new Three-Year Plan 2017–2019 and the granting of Share Options and Award Shares under the Three-Year Plan 2014–2016.

Details of Directors' and senior management's emoluments of the Company are set out in *Note 10* to the "Financial statements" on page 182 and *Note 39* to the "Financial statements" on pages 223 to 225.

### 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 its 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
- Bonus
- Share Options and Share Awards granted under long-term incentive schemes, i.e. Share Option Scheme and Share Award Scheme, adopted by the Shareholders

In determining guidelines for each compensation element, the Committee benchmarks the remuneration mix to market surveys. All Executive Directors' and senior management's remuneration packages were approved by the Remuneration Committee at the beginning of the Three-Year Plan 2014–2016.

*Basic Salary*

Li & Fung conducts periodic reviews of the basic salary of all employees (including Executive Directors and senior management) with reference to various factors like remuneration strategy, market pay trends and employee salary levels. The Group also determines the basic salary based on the performance of the Group, business unit and individual employee.

*Bonus*

Li & Fung implements a bonus scheme for each Executive Director and senior management. Under this scheme, the computation of bonus is based on measurable performance contributions and/or performance standards of operating groups headed by the respective Executive Directors and senior management.

*Share Options and Share Awards*

The Remuneration Committee recommends for Board approval all grants of Share Options and Share Awards under long-term incentive schemes, i.e. Share Option Scheme and Share Award Scheme. The vesting of Share Options and Share Awards granted under the Share Option Scheme and Share Award Scheme is subject to satisfaction of prescribed criteria of service length. The purpose is to align the interests of eligible employees of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or increase in value of Shares and to encourage and retain eligible employees to make contributions to the long-term growth and profit of the Group.

#### REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration, comprising Directors' fees, of Non-executive Directors is subject to regular assessment with reference to such fees 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.

### Company Secretary

The Company Secretary reports to the Group Chairman on Board governance matters and is responsible for ensuring that Board policies and procedures are followed. All Board members have access to her advice and services. She arranges the comprehensive and tailored induction program for new Directors prior to their appointment and provides timely updates to the Directors on relevant new legislation or regulatory requirements. Director training has been organized on a regular basis by the Company Secretary to assist Directors' continuous professional development. In 2016, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge. Biographical details of the Company Secretary are in "Our Board and management team" section on pages 62 to 73.

### 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.

Visit our website to read about our awards and recognition.

## Directors' and Relevant Employees' Securities Transactions

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with 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.

### Inside Information Procedures and Internal Controls

With respect to procedures and internal controls for the handling and dissemination of inside information, we have:

- Established a Policy on Inside Information to comply with our obligations under the SFO and the Listing Rules
- Included in our Code a prohibition of unauthorized use of confidential or inside information, including the trading of Company's securities
- Established procedures for responding to external enquiries about Group's affairs. Designated persons from senior management of the Group and the Investor Relations and Corporate Communication teams are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues

## Directors' and Senior Management's 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 137 to 139. The Shares held by each member of senior management are less than 2% of the issued share capital for the year ended 31 December 2016.

## Directors' Responsibility for Financial Statements and Auditor's Responsibility

The Directors' responsibility for preparing the financial statements is set out on page 140, and the auditor's reporting responsibility is on pages 144 to 145.

## Compliance with the Corporate Governance Code

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.

## Shareholders' Rights

The Company strives to provide equal, regular, timely and effective communication and dissemination of material information to Shareholders and other stakeholders. The Company also encourages participation of Shareholders in annual general meetings and other general meetings. The Company sends notice to Shareholders for annual general meetings at least 20 clear business days before the meeting and at least ten clear business days for all other general meetings.

Under the Company's Bye-laws, in addition to annual general meetings, the Board, on the requisition of Shareholders holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues 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.

A Shareholder can also propose a person for election as a Director at the general meeting convened to deal with appointment/election of Director(s), and he/she must follow the designated procedure. The nomination procedure for nomination of Directors by Shareholders is available on our website.

To further enhance minority Shareholders' rights, since 2003, we have adopted the policy of voting by poll for all resolutions put forward at the annual general meeting and special general meeting. To ensure Shareholders are familiar with the process, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from Shareholders on the voting procedures can be answered before commencement of the poll voting. An external scrutineer will be appointed to monitor and count the votes cast by poll. Poll results will be posted on our website and the Stock Exchange's website after each general meeting.

Apart from participating in the Company's general meetings, Shareholders may send their specific enquiries requiring the Board's attention to our Company Secretary. Other general enquiries can be directed through the Company's designated contacts, email addresses and enquiries lines as set out in the "Information for investors" section on page 126.

Visit our website to read the Shareholders' Communication Policy. This policy forms the basis for extensive and ongoing engagement with Shareholders and the investment community.

## Changes in Constitutional Documents

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016. The Company's constitutional documents are available on our website.

## Investor Relations

To uphold high standards of corporate governance, we maintain effective communications with the investment community by disseminating information in a timely and accurate manner. Our Investor Relations (IR) team maintains regular dialogue with institutional investors and research analysts through one-on-one meetings and conference calls, participating in investment conferences and attending non-deal road shows both in Hong Kong and overseas. To address a wider investment community, our website contains comprehensive information about the Company. Under the Investors page, viewers can find our financial reports and presentation materials, recent announcements and circulars, as well as our contact details. In addition, the annual general meeting is another platform that allows effective communication between senior management, Board members and Shareholders.

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. The Group therefore conducts the handling and dissemination of such Inside Information in accordance with the "Guidelines on Disclosure of Inside Information" issued by the SFO in June 2012 and Company's Policy on Inside Information. Members of senior management are identified and authorized to act as spokespersons and respond to related external enquiries. The Shareholders' Communication Policy is regularly reviewed by the Board to ensure its effectiveness.

We are committed to complying with disclosure rules and regulations stipulated by the relevant regulatory bodies, and to communicating the Group's business strategies, development and goals to investors and analysts. Being a market leader, we constantly share our market insights and industry developments with the investment community. From time to time, our senior management meets with investors and analysts to share their latest views on the business and to further explain our business model.

# Our approach to risk management

We maintain a sound and effective system of risk management and internal controls to support us in achieving high standards of corporate governance.

# Our approach to risk management

We identify and manage both risks and opportunities, and our internal controls review the effectiveness and efficiency of our operations, the reliability of financial reporting and compliance with applicable laws and regulations – all to build a sustainable business.

## Risk Management and Internal Control

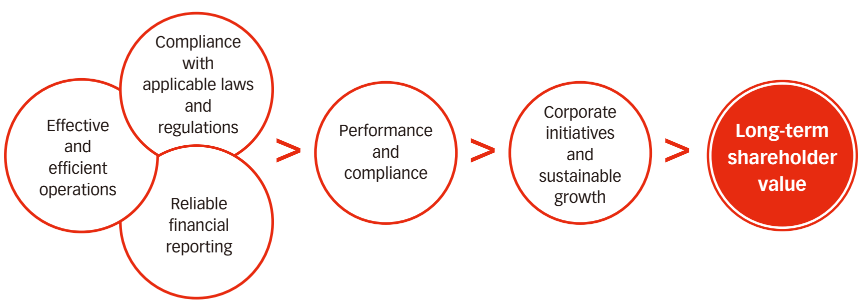
Li & Fung acknowledges that risks are inherent in our business and the markets in which we operate, and we undertake and monitor risks in pursuit of our strategic and business objectives. The challenge is to identify and then manage them so they can be understood, minimized, transferred or avoided. This demands a proactive approach to risk management and an effective group-wide risk management framework.

The Board is responsible for maintaining a sound and effective system of risk management and internal controls and for reviewing its effectiveness, which forms the development of necessary policies and procedures. We recognize that risk management is the responsibility of all of our people as an integral part of our day-to-day business process. Our system is designed to manage the risk of failure to achieve corporate objectives and aims to provide reasonable, but not absolute, assurance against material misstatement, loss or fraud.

The Board delegates to management the design, implementation and ongoing assessment of our systems of risk management and 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. The Audit Committee, in conjunction with the Risk Management and Sustainability Committee, reviews the emerging risks of the Group annually, and the risk management and internal controls in place to address those risks. Qualified professionals within the business maintain and monitor these systems of control on an ongoing basis.

Described below are the main characteristics of our risk management and internal control framework.

### Our Internal Control Framework is Designed to Achieve



## Control Environment

The scope of internal control relates to three major areas: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

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.

## Our Governance Structure

Our governance structure enables risk identification and escalation whilst providing assurance to the Board. We assign clear roles and responsibilities for managing risk and maintain systems to facilitate the implementation of policies and guidelines. This structure comprises three layers of roles and responsibilities to manage risk and internal control as follows:

| Role | Accountability | Responsibilities |
|---|---|---|
| Oversight | Audit Committee of the Board, Risk Management and Sustainability Committee of the Board | Oversight of corporate governance, financial reporting, risk management and internal control systems |
| Risk and control owner | Li & Fung Management and Operations Support Group | • Day-to-day execution and monitoring of internal control<br>• Strategic policies and operating guidelines formulation and execution<br>• Balance between business operational efficiency and exercising internal controls |
| Risk monitoring and communication | Corporate Compliance team | • Evaluation of risk management and internal controls to identify areas for improvement<br>• Monitoring of corporate governance disclosure, statutory and listing rules compliance<br>• Undertaking of investigations |

## Management of Key Risks

Li & Fung's risk management process is embedded in our strategy formulation, business planning, capital allocation, investment decisions, internal controls and day-to-day operations. This includes risk identification, exposure evaluation, control development and execution. There is also a continual process with periodic monitoring, review and reporting to the Risk Management and Sustainability Committee. Emerging risks that may have an impact on the Group are also discussed in the Audit Committee meetings.

The following are considered material risks faced by the Group and are managed as such:

### 1. OPERATIONS RISK MANAGEMENT

We have adopted a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. This is characterized by the establishment of an Operations Support Group (OSG) to centralize the business support functions and exercise control over global treasury activities, financial and management reporting, human resources (HR), corporate services, legal and information technology systems. This ensures adequate segregation of duties and checks and balances between OSG and management so that all material transactions, activities, processes, wrongdoings or irregularities can be identified.

All controls of major operations are supplemented with written policies and Key Operating Guidelines (KOGs) tailored to the needs of the respective operating groups in the markets in which we operate. These policies and KOGs cover key risk management and control standards for our operations worldwide, including the businesses of our different operating groups, commitments, credit control and advance payments, capital expenditure, authorizations and approvals for payment processes, and product liability insurance. They also cover administrative activities including information technology use, business travel, HR processes, training sponsorship and procedures for handling grievances. Our policies and KOGs are periodically reviewed and amended when considered necessary in line with the dynamic changes in our business environment and operations.

Contingency and business continuity plans, crisis management including fire drills, preparedness for pandemics and natural disasters and failover tests of key operating systems are also examined periodically to evaluate effectiveness. In 2016, no significant corrective action needs to be taken.

### 2. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Board approves the Company's Three-Year Plan financial budgets and reviews its operating and financial performance and key performance indicators against the budget on a semiannual basis. Monthly updates are also provided to the Board to give timely and comprehensive assessments of the Group's performance, position, prospects and economy. Management closely monitors actual financial performance at both the Group and operating group levels on a quarterly and monthly basis.

The Group has adopted a principle of minimizing financial and capital risks. Details of our 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 35 and 36* to the "Financial statements" on pages 214 to 217.

### 3. INVESTMENT RISK MANAGEMENT

The Investment Committee (comprising the Honorary Chairman, Group Chairman, Executive Directors and senior management) reviews strategic investments and acquisitions under a rigorous investment process. Significant investments and acquisitions (with consideration above a threshold pre-set by the Board) also require Board approval. Procedures are in place to monitor the ongoing post-acquisition performance of the investments.

Management also monitors the integration process of 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 must be reported to the Risk Management and Sustainability Committee.

### 4. REPUTATION RISK MANAGEMENT

The reputation capital of Li & Fung is built on its long-established standards of ethics in conducting business. Our core ethical practices, as endorsed by the Board, are set out in our Code of Conduct and Business Ethics (Code), available at our internal and external websites, for all Directors and employees. A number of accompanying policies, guidelines and procedures covering anti-bribery, gifts, entertainment and hospitality, declaration of interest and whistleblowing were created to set a framework for our people to make decisions and comply with both the ethical and behavioral standards of Li & Fung. For ease of reference and as a constant reminder, the Code and the accompanying policies and guidelines are available on One Family, our internal communications platform.

All employees are required to abide by the Code and they must apply business principles and ethics which are consistent with those expected by the Board and the Company's Shareholders and other stakeholders. Employees are also required to declare any conflicts of interest when they arise, and any reported conflicts are followed up by our HR, Legal and/or Corporate Governance divisions. Training sessions are regularly held throughout our global operations to reiterate the Company's zero tolerance approach to bribery and the importance of proper business ethics. An electronic learning platform for all employees will be launched in 2017 to further strengthen employees' awareness of the Company's ethical values. Any ethical cases or concerns raised through our guidelines on whistleblowing and reporting of concerns are investigated independently. Disciplinary actions, including summary dismissal or police involvement, will also be taken for serious cases.

Additionally, our business partners, our suppliers are required to acknowledge their understanding of our Li & Fung Supplier Code of Conduct, which stipulates our ethical standards and requirements for doing business and emphasizes our zero tolerance to any kind of bribery, use of child labor or serious health and safety issue. As outlined in "Our supply chain" section, suppliers are periodically subject to compliance audit to ensure their compliance with our Supplier Code of Conduct.

Our internal audit program integrates the assessment of compliance with the Code and the accompanying policies, guidelines and procedures. The Internal Audit team assesses the significance and risk profiles (e.g. country specific, labor intensity, compliance culture, corruption vulnerability, complexity of regulations, transaction complexity) of the Group's business, operations and processes when determining the audit scope. The scope of internal audits covers the following in respect of the Code:

- Reviewing compliance with the Code and relevant polices and guidelines during the onsite audit of global offices and operations, including business transactions and related documentation
- Reviewing the Code self-assessment program completed by global offices with relevant supporting documentation
- Conducting interactive forums, training and/or individual meetings with management and our people to ensure a culture of good corporate governance, risk identification and compliance is embedded in operations

We are committed to upholding the ten principles of the United Nations' Global Compact regarding human rights, labor, environment and anti-corruption. As included in our Code, we uphold the International Labour Organization's core conventions for the elimination of forced, compulsory or underage labor, elimination of discrimination in respect of employment and occupation, and respect for freedom of association and collective bargaining. We also acknowledge our responsibility to maintain a respectful workplace that is free of all forms of discrimination or harassment. In 2016, one sexual harassment case was reported and the convicted staff was dismissed as mentioned in "Our people" section.

### 5. REGULATORY COMPLIANCE RISK MANAGEMENT

The Corporate Compliance team is comprised of the Corporate Governance and Corporate Secretarial teams. Under the supervision of the Group Chief Compliance and Risk Management Officer and in conjunction with designated internal and external legal advisors, the teams regularly review adherence to relevant laws and regulations, Listing Rules compliance, public disclosure requirements and our standards of compliance practices.

### 6. INFORMATION TECHNOLOGY RISK MANAGEMENT

E-commerce in China continued to grow in 2016. Singles' Day was the most prominent e-commerce event, where the volume of orders we received was around 42 times more than the normal monthly volume. The team, systems and processes we have in place successfully helped our customers to manage and ship the huge volume of orders seamlessly within five business days. We will continue to ensure efficiency of our systems and leverage them across our operations, with rigorous diligence to needed investment.

We continue to develop our core operating systems including further consolidation of our global freight management system, with the completion of the first phase of CargoWise in all markets, and our financial system, E1, which is being rolled out in the US and Europe. Further our customer portal continues to be adopted by more customers, as the single gateway for information sharing and visibility of operations for our customers.

To capture data in the supply chain end-to-end, we are extending our focus to the activities before a purchase order is received. We hosted a series of workshops to identify any overlaps in processes, accountability and systems used. The findings from the workshops were used to build the framework of our digital platform, a key strategic initiative.

Although functional design of applications and business to business integration is the primary focus for speed, accuracy and productivity, we have taken additional steps over 2016 to increase adoption, ease of use and productivity through improvement in user experience and user interface of our applications. Moving forward, we will continue to brand and unify our applications for a seamless experience to further drive improved user adoption.

Mitigating cyber security risks continues to be our strategic focus. To protect the company from financial loss and significant reputational damage due to the sophisticated and ever-evolving cyberattacks, we have taken a three-tiered approach to protect us from cybercrime: user awareness, technology and incident response. We continue to provide security awareness training to educate our people. We also invested in several state-of-the-art protection tools and managed security services to enhance and to ensure our infrastructure availability. By leveraging security vendors' expertise, we have developed comprehensive security incident handling procedures to cope with various types of security incidents, allowing us to respond to security incidents 24/7 effectively.

In 2017, we are pursuing ISO 27001 certification – a well-defined Information Security Management System framework for international best practice in information security controls and systems interoperability. As this ISO27001 certification includes all physical, technical and compliance controls in information risk management process for an organization, we will further enhance our security efforts in protecting our users and company from cyber threats.

## Risk Management Monitoring

In conjunction with the Audit Committee, the Risk Management and Sustainability Committee regularly monitors and updates the Group's risk profile and exposure and reviews the effectiveness of the 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, HR, contingency and disaster recovery, IT governance, corporate responsibility and sustainability, and specific risks such as operational and adaptation risks arising from climate change.

## Internal and External Audit

### Internal Audit

The internal audit function is carried out by the Corporate Governance team and its mission, authority, roles and responsibilities were formalized under internal audit charter adopted by the Audit Committee. Under the supervision of the Group Chief Compliance and Risk Management Officer, it independently reviews compliance with Group policies and guidelines, legal and regulatory requirements, risk management and internal controls and evaluates their adequacy and effectiveness. The Group Chief Compliance and Risk Management Officer reports all major findings and recommendations to the Audit Committee on a regular basis.

The Corporate Governance team's Internal Audit plan is linked to the Group's Three-Year Plan and is reviewed and endorsed by the Audit Committee.

The principal tasks of the Corporate Governance team include:

- Preparation of an internal audit plan using a risk-based assessment methodology that covers the Group's significant operations over a three-year cycle
- Review of all operations, controls and compliance with KOGs and corporate policies, rules and regulations. The audit scope covers significant controls including financial, operational and compliance controls, and risk management policies and procedures
- Review of special areas of concerns or risks as raised by the Audit Committee, the Risk Management and Sustainability Committee or senior management
- Conduct independent investigation of cases related to the potential/actual violation of the Company's Code

Major audit findings and recommendations from the Corporate Governance team, and management's response to these findings and recommendations, are presented at Audit Committee meetings. The implementation of all recommendations is followed up on a three-month basis and the status is reported to the Audit Committee at its meetings.

As part of the annual review of the effectiveness of the Group's risk management and internal control systems for 2016, management conducted an Internal Control Self-Assessment of business operations and relevant accounting functions. The Corporate Governance team has independently performed a post-assessment review of the findings noted in the self-assessment programs and considered that sound internal control practices were in place for 2016.

### External Audit

Our external auditor, PricewaterhouseCoopers (PwC), performs independent statutory audits of the Group's financial statements. To facilitate the audit, the external auditor attended all meetings of both the Audit Committee and the Risk Management and Sustainability Committee. The external auditor also reports to the Audit Committee any significant weaknesses in our internal control procedures which come to its notice during the course of the audit. PwC noted no significant internal control weaknesses in its audit for 2016.

## Overall Assessment

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

# Our Board and management team

## Board Member Biographies

### Victor Fung Kwok King

Honorary Chairman
Chairman of Risk Management and Sustainability Committee

Aged 71. Brother of William Fung Kwok Lun and father of Spencer Theodore Fung. Group Chairman of the Fung Group, a Hong Kong-based multinational group which comprises major operating groups engaging in trading, logistics, distribution and retailing. They include publicly-listed Trinity Limited, Convenience Retail Asia Limited, Global Brands Group Holding 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's and Master's 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 Chow Tai Fook Jewellery Group Limited (Hong Kong) and Koç Holding A.Ş. (Turkey). Since July 2015, chairman of the Advisory Board of the Asia Global Institute at The University of Hong Kong, a new multi-disciplinary think-tank to assume and carry forward the mission and operations of Fung Global Institute, of which he was a Founding Chairman (July 2010–June 2015).
A member of the Chinese People's Political Consultative Conference. A member of the Economic Development Commission of the Hong Kong Government. Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme. Appointed advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority in July 2016. 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 University of Hong Kong (2001–2009), chairman of the Greater Pearl River Delta Business Council (2004–2013), a member of the Commission on Strategic Development of the Hong Kong Government (2005–2012), chairman of the International Chamber of Commerce (2008–2010), a member of WTO Panel on Defining the Future of Trade (2012–2013) and a vice chairman of China Centre for International Economic Exchanges (2009–2014). Independent non-executive director of BOC Hong Kong (Holdings) Limited (June 2002–June 2014) and China Petrochemical Corporation (April 2012–January 2016). In 2003 and 2010, the Hong Kong Government awarded Victor the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

## William Fung Kwok Lun

Group Chairman

Aged 68. Brother of Victor Fung Kwok King and uncle of 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, The Hongkong and Shanghai Hotels, Limited and Singapore Airlines Limited. Chairman and Non-executive Director of Global Brands Group Holding Limited and a Non-executive Director of Convenience Retail Asia Limited and Trinity Limited, all within the Fung Group. A Director of King Lun Holdings Limited and its wholly owned subsidiary, Fung Holdings (1937) Limited, substantial shareholders of the Company. Past chairman of the Hong Kong General Chamber of Commerce (1994–1996), The Hong Kong Exporters' Association (1989–1991) and the Hong Kong Committee for Pacific Economic Cooperation (1993–2002). Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

## Spencer Theodore Fung

Group Chief Executive Officer

Age 43. Group Chief Executive Officer since July 2014 and Executive Director since 2008. Previously Group Chief Operating Officer (2012–July 2014), 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 – Hong Kong Chapter, Limited. 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 MBA degrees from Northeastern University. A US Certified Public Accountant. The son of Victor Fung Kwok King, Honorary Chairman, and nephew of William Fung Kwok Lun, Group Chairman.

## Board Member Biographies (continued)

### Marc Robert Compagnon
Executive Director and President of LF Sourcing

Aged 58. Executive Director since 2014. President of LF Sourcing overseeing the Group's global agency business for apparel and hardgoods. 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 Arts degree from the University of Vermont. Member of the Board of Advisors of the School of Business Administration at The University of Vermont and a founding member of Cotton's Revolutions. Non-executive chairman of TheAbacaGroup, Inc. (Cebu), a hotel and restaurant management group.

### Paul Edward Selway-Swift
Independent Non-executive Director

Age 72. 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. An independent non-executive director of Global Brands Group Holding Limited whose shares are listed on The Stock Exchange of Hong Kong Limited. Formerly, deputy chairman of HSBC Investment Bank PLC (1996–1998) and a director of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong (1992–1998).

### Allan Wong Chi Yun
Independent Non-executive Director
Chairman of Remuneration Committee

Age 66. 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 and MTR Corporation Limited. Awarded the Silver Bauhinia Star and the Gold Bauhinia Star in 2003 and 2008 respectively.

## Margaret Leung Ko May Yee

Independent Non-executive Director
Chairman of Audit Committee

Aged 64. An Independent Non-executive Director since 2013. Deputy chairman, managing director, chief executive and an executive director of Chong Hing Bank Limited. 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. An independent non-executive director of First Pacific Company Limited, Sun Hung Kai Properties Limited, Hong Kong Exchanges and Clearing Limited and QBE Insurance Group Limited. Formerly, an independent non-executive director of China Construction Bank Corporation (2013–2016). Holds a Bachelor's degree in Economics, Accounting and Business Administration from The University of Hong Kong.

## Martin Tang Yue Nien

Independent Non-executive Director
Chairman of Nomination Committee

Age 67. 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 Limited and China NT Pharma Group Company Limited. Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

## Supporting the Board

### Edward Lam Sung Lai
Chief Financial Officer

Aged 51. Chief Financial Officer of the Group and member of the Executive Committee, overseeing the Group's corporate development and global finance functions, including corporate finance, treasury, investor relations, financial planning and analysis, risk management and financial reporting. Joined the Group in 2012. 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.

### Jason Yeung Chi Wai
Group Chief Compliance and Risk Management Officer

Aged 62. Group Chief Compliance and Risk Management Officer of the Company since July 2015. Also, the Group Chief Compliance and Risk Management Officer of Fung Holdings (1937) Limited, a substantial shareholder of the Company and its publicly-listed companies in Hong Kong. Extensive experience in handling legal, compliance and regulatory matters, and worked previously in both the public and private sectors practising corporate, commercial and securities law. Prior to joining the Fung Group, deputy chief executive (Personal Banking) of Bank of China (Hong Kong) Limited (BOCHK) with responsibility for the overall performance of the personal banking businesses of BOCHK. Graduated from The University of Hong Kong with a Bachelor's degree in Social Sciences. Also graduated from The College of Law, United Kingdom and holds a Bachelor's degree in Law and an MBA degree from The University of Western Ontario, Canada.

### Terry Wan Mei Chow
Company Secretary

Aged 53. Group Company Secretary of the Company since 1996 and responsible for the company secretarial services of the Group. Graduated from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and started her career as company secretary at Ernst & Young in 1985. A fellow member of both The Institute of Chartered Secretaries and Administrators in England and The Hong Kong Institute of Chartered Secretaries (HKICS). A member of the Membership Committee of HKICS since 2013. Past member of the Company Secretaries Panel of HKICS (2013–2015). Recipient of the 1st Asian Company Secretary Recognition Award by Corporate Governance Asia in 2013.

## Senior Management Biographies

### Annabella Leung Wai Ping
President of LF Fashion

Aged 64. President of LF Fashion managing the Group's sweater vertical 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. Independent director of Teleperformance SE, a company listed on the Paris Stock Exchange. Formerly served on various advisory boards for The Hong Kong Exporters' Association, Hong Kong Trade Development Council, Clothing Industry Training Authority and Hong Kong Export Credit Insurance Corporation. Former chairman of the Vetting Committee for the Professional Services Development Assistance Scheme of Commerce and Economic Development Bureau of the HKSAR Government.

### Carmen Chau Ka Ming
President of LF Sourcing*

Aged 50. President of LF Sourcing leading a global team of sourcing, merchandising and design professionals, and managing the Group's largest department store customers, the children's wear platform, home textile platform and the Southern Hemisphere region. Prior to joining the Group in 1999, held senior positions with Colby International Ltd and The Woolmark Company. Began her career in the sourcing industry at Swire & Maclaine Ltd. Graduated from York University in Canada with a Bachelor of Administrative Studies degree.

### Deepika Rana
President of Group Executive Office*

Aged 55. President of Group Executive Office leading new value added strategies across stakeholders as well as driving synergies across the Group. Joined the Group in 2003 and was elevated to Executive Director – Indian Subcontinent & Sub Sahara Africa since 2014. About 28 years of experience in managing strategic sourcing and operational business roles. Has been responsible for leading strong growth of both home and apparel businesses across the region by building strong relations across stakeholders in the supply chain. Began her career in J.C. Penney Purchasing Corporation and moved on to head the May Department Stores International Inc. India liaison office before joining the Group. Holds a Master of Arts degree in Business Economics from the University of Delhi in India.

* *Effective on 1 January 2017*

## Senior Management Biographies (continued)

### Emily Mak Mok Oi Wai
Chief Administrative Officer

Aged 55. Chief Administrative Officer since 2014 and responsible for global hub operations, corporate services including global procurement and global workspace management of the Group. Focuses on strengthening the global infrastructure set up, workplace strategy and talent to support business success. 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. Prior to her current role, President of LF USA Sourcing, spearheading the sourcing and operations in Asia. Graduated from The University of Hong Kong with a Bachelor of Social Sciences degree.

### Gerard Jan Raymond
President of LF Beauty

Aged 60. President of LF Beauty overseeing the Asia-based operations of the Group's beauty and cosmetic business. Previously, President of LF Asia managing the Group's food, health, beauty and cosmetics wholesale and distribution business in Asia and before that, 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 67. President of LF Products mainly managing the Group's furniture 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.

## Joseph Chua Phi

President of LF Logistics

Aged 54. President of LF Logistics managing the Group's logistics business as well as its data analytics and business development functions. Joined the Group in 1999. Executive Director of Integrated Distribution Services Group Limited from 2004 to April 2011. 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 UP. 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. Chairman of GS1 Hong Kong. Director of GS1 Management Board. Member of Supply Chain 50. Board member of Macy's China Limited. Adjunct professor in the School of Business and Management at The Hong Kong University of Science and Technology. Advisory committee member of the Hong Kong Trade Development Council's Logistics Services. Honorary advisor of the Asian Logistics and Maritime Conference.

## Lâle Kesebi

Chief Communications Officer & Head of Strategic Engagement

Aged 48. Chief Communications Officer & Head of Strategic Engagement since 2014 and responsible for global corporate communications with all internal and external stakeholders of the Company and leading the development of strategy on key initiatives aligning the organization to the Company's goals. 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). Currently, member of Board of Governors of The Women's Foundation in Hong Kong. Member of Board of Trustees of the Asian University for Women (AUW) and co-chair of the founding board of AUW Support Foundation (Hong Kong) Limited. 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.

## Manuel Carlos Fernandez

Group Chief Technology Officer

Aged 46. Group Chief Technology Officer since March 2006, responsible for strategic technology direction and leadership to all IT heads within the Fung Group including Convenience Retail Asia Limited, Trinity Limited, Global Brands Group Holding Limited and the Company. Assumed additional role of Head of Global Transactional Services of the Company in 2014. Joined the Group in 1999 as Regional IT Manager – Strategic Applications of Li & Fung Distribution Group. Chief Information Officer of Integrated Distribution Services Group between 2001 to 2006. Holds a Bachelor of Science in Computing for Real Time Systems (Honours) degree from University of the West of England Bristol. Awarded CIO of the year (Hong Kong region) in Hitachi Data Systems IT Inspiration Awards 2009. Executive committee member of Hong Kong Computer Society's Chief Information Officer Board.

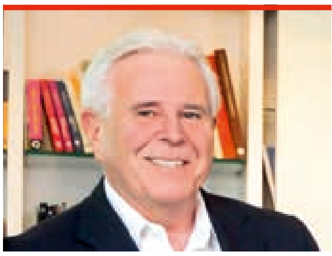
**Our Senior Management Team**

*Back row (from left to right): Sean Coxall, Robert Sinclair, Roger Young, Carmen Chau, Stephen Lister, Gerard Raymond, Leung Wai Ping, Joseph Phi, Richard Darling, Deepika Rana and Manuel Fernandez*

*Front row (from left to right): Lâle Kesebi, Henry Chan, Marc Compagnon, William Fung, Spencer Fung, Victor Fung, Emily Mak and Edward Lam*

## Senior Management Biographies (continued)

### Richard Nixon Darling
Head of Government and Public Affairs



Aged 63. Head of Government and Public Affairs overseeing the Group's government relations, public affairs and supply chain sustainability on global industry and multi-stakeholder initiatives. Also overseeing the Group's Vendor Compliance & Sustainability since 2015. Formerly, President of DSG overseeing the Group's dedicated sourcing group servicing Wal-Mart globally. The founder of The Millwork Trading Co., Ltd, a joint venture with Li & Fung that became a wholly-owned subsidiary from 1999 to 2014. Board member of the American Apparel and Footwear Association and K.I.D.S./Fashion Delivers. Member of the Board of Governors of Parsons, The New School for Design. Representative of the Group on the Center for Retailing Excellence Executive Board of the Sam M. Walton College of Business at the University of Arkansas, the Board of Advisors of the Cornell University ILR School New Conversation Project, the Alliance for Bangladesh Worker Safety and The Accord on Fire and Building Safety in Bangladesh.

### Robert Lloyd Sinclair
President of LF Sourcing*

Aged 54. President of LF Sourcing overseeing all business related activities for apparel, footwear and hardgoods, as well as sourcing and general merchandise. Joined the Group in 2011 as Executive Vice President of Lifestyle Brands business unit and was promoted to Chief Operating Officer for LF Sourcing in 2013. Prior to that, held senior positions in various capacities with VF Asia Ltd., the global procurement business unit for VF Corporation based in Hong Kong and Ralph Lauren Corporation. Formerly, managing director of KOMPASS Global Sourcing Solutions Ltd. (2002–2009). Started his career in the sourcing industry with a Hong Kong-based agency, Colby & Staton Fashions Limited, in 1986. Chairman and founding member of Global Apparel Footwear and Textile Initiative (GAFTI). Member of The American Chamber of Commerce in Hong Kong. Advisor to the Asia Industry Advisory Network for the College of Textiles, North Carolina State University. Holds a Bachelor of Arts Degree from Carleton University in Canada.

### Robert Stephen Lister
President of LF Private Label

Aged 60. President of LF Private Label managing the Group's wholesale and distribution business in the US and 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 the Company in 2007. A Fellow of The Institute of Chartered Accountants in England & Wales.

* *Effective on 1 January 2017*

## Roger Guy Young

Chief Human Resources Officer

Aged 53. Joined the Group in November 2016 as the Chief Human Resources Officer working closely with operating groups and functions to develop organizational, talent and reward strategies that support the Group's growth ambitions. Formerly, held various global and regional leadership positions in Finance, Human Resources, Operations, Sales & Marketing, and Mergers & Acquisitions during his 24 years with PPG Industries, Inc., a company in the manufacturing and distribution of coatings and specialty products. In 2013, joined National Grid, a multinational company in the transmission and distribution of natural gas and electricity, as senior vice president, Human Resources and chief diversity officer. Holds a Bachelor of Arts degree in Business Administration from The University of Western Ontario in Canada, and an MBA degree from Katholieke Universiteit Leuven in Belgium.

## Sean Christopher Coxall

President of LF Sourcing*

Aged 52. President of LF Sourcing leading the Branded Fashion and Sportswear Group that provides global brands and specialty fashion retailers with innovative supply chain solutions. More than 35 years of experience working in retail, buying and worldwide sourcing. Previously, executive director of Authentic Brands Group and oversaw the European Apparel Group from 2010 to 2016. Began his career with Marks & Spencer's management scheme in London in 1981 and then worked across store management and senior selector roles spanning product categories from men's casualwear, leisurewear and knitwear, and underwear and nightwear to men's tailoring. Prior to joining the Group in 2001, design director at Warnaco where he was responsible for product development for their key brands, including Calvin Klein Jeans, Calvin Klein Underwear and Chaps Ralph Lauren.

* *Effective on 1 January 2017*

**Meet some of our virtual sampling experts!**
**From left to right: Amy Yeung, Andy Ching, Chris Okazaki, Wilson Chan, Anita Leng, Leo Yu, Eric So, Elaine Lai and Wing Tse**


# Our people

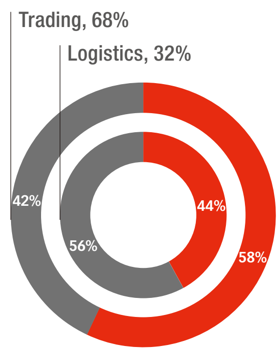
Our people power our business and we are committed to their wellbeing and development.

# Our people

Our people are our greatest asset. We attract and retain entrepreneurial talent worldwide with in-depth supply chain and logistics expertise, and offer development opportunities at all levels.

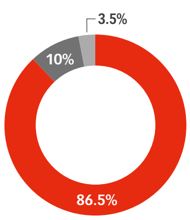
**21,510**
**EMPLOYEES WORLDWIDE**

### Employees by Business Network and Gender




- Male
- Female

### Employees by Region




- Asia Pacific
- Other Regions
- The Americas

Our trading and logistics businesses are led by industry experts, who have deep product category and channel expertise across sourcing and logistics. From designers, merchandisers, quality assurance and control experts to our warehouse delivery and logistics professionals, our people are highly skilled and among the best in the world in their disciplines. They drive our growth and success.

Our senior management and teams around the world bring a vibrant mix of nationality, ethnicity, culture as well as professional and life experience that enriches our company. This diversity and breadth of cross-cultural and international work experience supports the sustainability of our global trading and logistics businesses.

We see diversity as a source of strength and pride. Our 21,510 employees[1] represent over 50 nationalities operating in more than 40 economies. Our diversity inspires innovation, enriching every aspect of our business. We are committed to ensuring an inclusive workplace, where diversity of gender, ethnic origin, thought, generation, sexual orientation and ability are valued and leveraged to foster innovation and creativity.

Our business is built on long-term relationships within our teams. Attracting and developing the best skill and talent is essential to the development of our business. Integrating new talent into our family is important and in 2016, our logistics team received the Silver Award for providing the Best Onboarding Experience by the Asia Recruitment Awards.

Our strengthened digital presence also helps us to engage the best local and international talent from all over the world. We started to use LinkedIn as part of our recruitment strategy in 2015, and in 2016 we received 22,983 job applications through this platform. In addition to attracting external talent, we encourage internal transfer opportunities for our people who want to enhance their skills or develop new competencies. In 2016, 15% of our open positions were filled by existing employees and 25% were through internal referrals. As part of our ongoing

### Management Team by Gender

**49%** FEMALE **51%** MALE

### Employees by Gender[2]

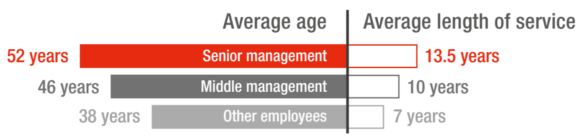
**57%** FEMALE **43%** MALE

1 *The strategic divestment in June of 2016 of Li & Fung's Asia consumer and healthcare distribution business (refer to http://www.lifung.com/wp-content/themes/lifung_new/ir/view.php?id=158913), is the primary reason for the reduction in our employee numbers over 2015.*

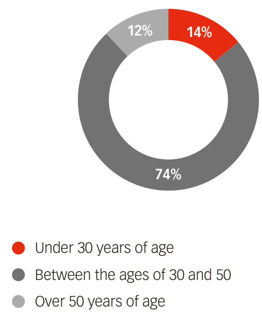
2 *For our full-time employees on permanent contracts, 52% are female and 48% are male. 59% of our female employees and 41% of male employees work full-time on temporary or other contracts.*

talent development initiatives, we encourage cross-functional and cross-regional development moves to prepare our emerging leaders to be able to assume leadership roles in the future. Our voluntary turnover rate among professional staff was 13.2% in 2016, which compares favorably with the APQC Benchmark[3] Industry Target of 13.8% for large, complex, multinational companies.

### Average Age of Employees and Length of Service




### Age of Employees




## Our Values

Our values form the basis of our culture, business strategies and brand. Three core values continue to unite us and guide our actions:

**We are entrepreneurs**
**We are humble**
**We are family**

Our core values are more than just words. They are meaningful expressions of who we are. They define our behavior with each other as colleagues, with our customers and suppliers, and with all those we interact with in our daily lives. We continue to engage our people directly on what is important to them. In 2016, we launched a distinct page on our One Family internal communications platform to share the Culture Crew blogs, videos and photos, and personal vignettes from people across our company on what the values mean to them, and how they live the values and integrate them into their lives and work.

In 2016, we significantly expanded our brand beyond our corporate website and LinkedIn, and launched new digital channels with Instagram and YouTube. We are committed to enhancing our digital channels over the next year as a key part of telling our brand story, connecting our people and attracting and retaining the best talent.

Visit our website and digital channels to understand more about our values and our brand.

3 *https://www.apqc.org/benchmarking*

## Our Approach

Fostering diversity, living our values, caring for and engaging our people, developing talent, and providing a respectful, safe and healthy working environment are essential elements of our Sustainability Strategy. Our people initiatives focus on three areas:

1. C.A.R.E. – caring for and engaging our people

2. Wellbeing – enhancing the wellbeing of our people

3. Career – attracting and developing talent

### Caring for and Engaging our People

Connecting, appreciating, responding to and encouraging our people – what we know as 'C.A.R.E.' – is a core engagement initiative at Li & Fung. Across our global operations, C.A.R.E. drives our efforts in providing an environment that is entrepreneurial, engaging and fosters a long-term commitment to the company.

Each year we hold multiple events to share our goals and encourage dialogue and innovative thinking across geographies. Through town halls, annual conferences, team meetings and other events, our people connect to learn from seasoned professionals and collaborate with peers to incubate business ideas.

In 2016, our Group CEO, Spencer Fung, continued to host a series of monthly, small group gatherings with colleagues working in various roles from different businesses. The gatherings enable our colleagues to understand more about the company's direction and allow our CEO to learn about the challenges they face and to share his thoughts directly with them. These informal gatherings are now part of our regular communications and engagement process globally.

At the start of 2016, we launched our global employee engagement survey. Over 81% responded from across the company including colleagues in our distribution centers (DCs) and manufacturing facilities on how we are doing as a company. Our engagement index was above the global average for engagement at other companies and near the benchmark average of high-performing companies[4]. Retaining expertise, providing clearer career paths, having better leader communications and engagement, as well as expanding on our innovation efforts were areas of particular feedback which we are focused on for 2016 and beyond.

Our One Family internal communication platform remains central to connecting our people around the world with stories, blogs and a social feed. Our people freely share their thoughts and ideas instantly and form communities with colleagues who have the same interests and

4 *According to PwC's Global All Industry and High-Performing Company Benchmarks.*

passions, or work in the same role. In 2016, we had 14,186 unique users accessing One Family, which equates to 66% of our employees globally.

Appreciating our people also extends to appreciation events and special days for families that we regularly organize and awards that recognize the achievements of our people. In 2016, 2,875 employees reached anniversaries with Li & Fung for five years or more and were awarded Long Service Awards. Of our people receiving awards in 2016, almost 50% had worked with us for 10 years or more, including 40 colleagues with 30 years' service or more – a remarkable achievement.

5+ years

**2,875**
COLLEAGUES
with 5+ years
long service awards in 2016

10+ years

**1,426**
COLLEAGUES
with 10+ years
long service awards in 2016

## Enhancing Wellbeing

The health, safety and wellbeing of our people are very important to us. Our strategy and programs are tailored to support our peoples' wellbeing and to meet the specific occupational health and safety requirements of different working environments within our offices, manufacturing facilities and DCs. To support local needs and meet local legal requirements, we ensure that our working hours and benefits, and other terms of employment, are tailored to each locality in our global network. In 2016 there were no fatalities in our workplaces globally. We continue to implement health and wellness programs globally that focus on creating awareness of a myriad of health, emotional and social issues and helping our people to access resources to support their diverse needs.

We are committed to maintaining a respectful workplace free from discrimination and harassment of any form and to providing equal opportunities for all our people in support of international declarations on human and labor rights[5]. We affirm these commitments in our Code of Conduct and Business Ethics (Code)[6]. All new employees learn about the Code during their orientation. Policies and guidelines for addressing the Code are implemented in the acquisition of new businesses and through our ongoing recruitment, training, performance assessment, disciplinary and grievance processes.

5 *International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the UN Global Compact's 10 Principles and the UN Declaration of Human Rights.*

6 *https://www.lifung.com/wp-content/uploads/2014/05/LF-Code-of-Conduct-and-Business-Ethics.pdf*

Compliance with our Code is reviewed quarterly by the Risk Management and Sustainability Committee (RMSC) of the Board and audited by our Corporate Compliance team, under the supervision of the Group Chief Compliance and Risk Management Officer, who reports any material non-compliance to the Board directly or through the RMSC. In 2016, one grievance case of sexual harassment was reported and, following a thorough investigation, it was determined that there had been a violation of our Code. As a result, the employee was dismissed in accordance with our contractual terms and local labor regulations. The incident was shared locally with employees of the office where the violation occurred to reinforce our commitment to upholding our Code and to conducting business ethically in a respectful workplace environment.

Our manufacturing[7] and logistics facilities have all implemented formalized occupational health and safety (OHS) management systems and five are audited to meet the requirements of the Sedex Members Ethical Trade Audit (SMETA)[8]. Our manufacturing facilities in Bangkok and Jakarta are certified to the OHSAS 18001 OHS Management System standard, as are four of our logistics facilities in China, Philippines, Singapore and Thailand. Our DC in Singapore also was awarded the BizSAFE STAR Certificate from the Singapore Workplace Safety & Health Council. Our Trowbridge manufacturing facility meets RIDDOR[9] standards and the Tonawanda facility exceeds the standards of the OSH Act[10]. All facilities hold safety talks, training and drills on workplace hazards, safe working practices, chemical management, forklift operation, defensive driving, and spill, fire and emergency prevention and response. Annual Environmental, Health and Safety Weeks and topical OHS events are also held, and counselling services, medical clinics and vaccinations are provided. We are very pleased that our manufacturing facility in Thailand won the 2016 National Outstanding Award on OHS and Environment for the fourth consecutive year.

We have fitness centers in a number of our workplaces and host a variety of exercise and wellness activities, ranging from health checks, self-help and mindfulness training, and yoga and dancing sessions, to marathon training.

We are committed to ensuring that our people feel safe and respected and able to apply their best skills at work. We believe this improves performance at work and brings benefits to our people, both personally and professionally.

💻 Visit our website to read about our successful myRun campaign and other activities to promote wellbeing.

*7 With the strategic divestment in June of 2016 of Li & Fung's Asia consumer and healthcare distribution business (refer to http://www.lifung.com/wp-content/themes/lifung_new/ir/view.php?id=158913), the manufacturing facility in Kuala Lumpur, which was previously part of Li & Fung's reporting scope, is no longer included.*

*8 Our facilities in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge are audited to meet SMETA requirements.*

*9 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.*

*10 Occupational Safety and Health (OSH) Act of 1970, 29 CFR 1910 Occupational Safety and Health.*

## Attracting and Developing Talent

We believe that building a strong culture of learning plays a vital role in maintaining sustainable growth. To ensure our people leverage their talents and develop their skills and competencies, we provide development programs focusing on leadership, broadening professional knowledge and technical skills, and enhancing productivity. We also provide flexible learning channels from online and classroom courses, on-the-job experience, and networking and mentoring, to cross-border opportunities. In 2016, 10,760 of our employees each attended our learning programs, and 7,921 each accessed our online learning platforms. In comparison to 2015, the number of in-house learning programs offered increased by 22%, online learning resources increased by 17% and average training hours increased from 4 to 7 hours per employee.

Each year we attract exceptional talent globally to join The Program for Management Development. Launched in 2010, this one-year, intensive program aims to cultivate entrepreneurialism and develop our future business leaders. It includes corporate orientation and training, rotational assignments in the Fung Group's core businesses and business education programs. 12 Management Associates participated in the 2016 intake.

In addition to our more formalized learning and development activities, our people use a robust learning platform, known as 'MyCareer', which lets them learn at their own pace. MyCareer covers career development, skill training, expertise sharing and personal and management development. With the addition of 130 new videos and podcasts in 2016, MyCareer hosts over 2,390 learning resources, including e-books, e-modules, learning articles, videos, webinars and podcasts, to support our people to enhance their merchandising, retail and technology skills.

In 2016 we launched a comprehensive "Learning Week" in five locations to support our people in adapting to new ways of learning. 75 sessions were rolled out to 1,311 participants, with over 39,000 learning hours provided. Topics focused on building the merchandising, management and digital capabilities of participants. Feedback was very positive with participants appreciating the practicality and interactivity of the sessions.

**22%** increase over 2015
IN-HOUSE LEARNING PROGRAMS IN 2016

**2,390+**
LEARNING RESOURCES AVAILABLE

**17%** increase over 2015
ONLINE LEARNING RESOURCES IN 2016

> **"We are building our capabilities for the future to meet the demands of the new digital world.**
>
> **Roger Young,**
> **Chief Human Resources Officer**

## Developing Leaders

Developing leaders, at all levels, is a key priority. Focused programs, networking and experiential and on-the-job learning are just some of the ways we foster leadership. In total, 581 of our global team members participated in leadership development training in 2016.

We continue to implement our tailored leadership roadmap for different leadership levels, with the support of the Fung Academy. Since 2015, we have been implementing and enhancing the "Leading Self, Leading Others" leadership program which focuses on equipping mid-level managers with the skills to take on the role of people managers. Participants went through various simulation exercises and were given tasks to help them better understand their own, and other people's, styles and attributes so they can improve how they communicate and engage with their teams, and give and receive feedback. Given the success of the program and the relevant subject matter, over 2016, this two-day program was extended to our senior managers. In total, 326 mid-level and senior managers participated in this program. Other leadership initiatives in 2016 included:

- Engaging 15 high-potential employees at the junior to middle levels in our offices in North America and Europe to participate in a pilot program, known as Leadership Essentials, to build core leadership competencies
- Training 27 of our senior managers on leadership and facilitation skills to cultivate an environment of 'leaders building leaders', so that they could become internal trainers and expand the reach of the program
- Training 102 employees, who were recently promoted to a supervisory or managerial position, in the "Emerging Leaders Program" to equip them with basic people management skills

## Professional and Technical Skills

Enhancing skills and broadening the business knowledge of our people is an important focus of our people strategy.

In 2016, we expanded our costing program to a further eight locations to equip merchandisers with critical knowledge to cost each step of the supply chain – from raw material sourcing and manufacturing to logistics and retail. We also continued to support our people to join an in-depth dyeing and coloring program based on the requirements and guidelines of the Society of Dyers and Colourists (SDC). Twelve new colleagues joined in 2016 and our graduates of the program continue to transfer their knowledge to colleagues through sharing sessions and how-to videos.

A competency model that was jointly developed in 2014 with one of our key logistics customers (a major footwear brand) has been successfully embedded into our employee lifecycle at our DCs over the past two years. The new model has helped enhance our overall people capabilities and create a healthy talent pipeline to support the rapid business growth of our customer.

Our achievements were recognized externally by the "Excellence in Organization Development" Award at the HR Innovation Awards 2016 and the "Excellent Service Provider Award" at our customer's Supplier Summit 2016 in China.

Visit our website for more information about our learning programs, including those to support our customers.

## Innovation Programs

We believe innovation is critical to staying competitive in rapidly-changing global markets, and that collaborative learning is essential to developing a culture of innovation. Our Design Community, formed in 2015 with over 290 members in Hong Kong, Manchester and New York expanded to Bangkok, Seoul and Shanghai, for our designers to share experience and collaborate to further boost innovation within the company.

We continued to gather middle managers across different businesses for our Innovation Catalyst program that includes training on design thinking and a team-based innovation challenge. This is complemented by coaching on innovation techniques, such as rapid prototyping and ways to connect what was learned back to day-to-day business and to transfer knowledge to other colleagues.

We introduced a number of new programs in 2016 to further spur innovation. We ran a series of workshops to bring people together to review and test innovative ideas, technologies, strategic planning processes and opportunities for exponential impact. This included experimentation/prototyping to develop market or customer-based strategies and integrating innovation into the business.

We also introduced a customized program developed with Singularity University to explore new technologies and business ideas with our senior leadership team. Our goal is to have this as part of a larger culture of innovation at the company.

You can read more about Innovation @ Li & Fung on pages 84 to 89.

# Innovation @ Li & Fung

We are creating a culture that empowers our people to share new ideas, experiment, collaborate – with each other and with customer and supply chain partners – and work with speed.

# Innovation @ Li & Fung

We believe innovation enables ideas, experiences, expertise and a diversity of perspectives to come together to create supply chains of the future.

Brands and retailers are grappling with the tremendous change in consumer behavior and expectations from mobile-first and personalization, to new experiences at every turn. We are fuelling innovation by driving more collaboration externally and internally through crowdsourcing ideas, collaborating around new products and forming partnerships that conceptualize new ways of working. By learning from experts and thought leaders in the technology industry and creating open working spaces that encourage collaboration, we are embracing innovation so that we can be more agile and flexible and adapt to change.

> **Innovation means creating a culture that empowers our people to share new ideas, experiment, collaborate and work with speed.**
>
> **Spencer Fung,**
> **Group CEO**

## Product Innovation

In 2016, we collaborated with leading radio-frequency identification (RFID) and Internet of Things (IoT) partners, Smartrac and Blue Bite, to create the first-ever wearable technology product from high-end ski apparel brand, Spyder. The men's ski jacket features a specially-designed Spyder logo patch embedded with a near-field communication (NFC) tag. With a simple tap of a phone or tablet, the wearer can immediately interact with real-time and dynamic content, including Spyder's social media feeds, featured videos, countdowns to ski events or access location-based information such as snow conditions, trail maps and regional events, all designed to enhance the wearer's experience.

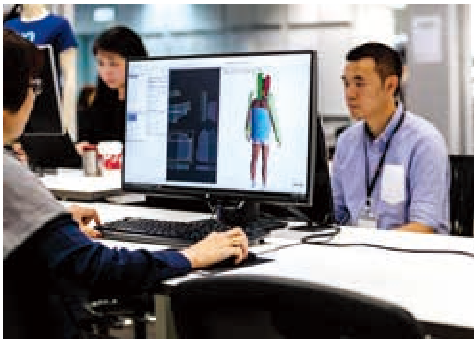
In partnership with the Fung Academy, we created the WearWare team to focus on co-developing meaningful smart products for our customers. By rethinking and exploring everything from the scope of materials and types of fabrics and plastics, to incorporating sensors and connectivity, the team uses research, ideation, rapid prototyping and consumer validation to test new wearable products quickly and share their learnings across the company.

In our furniture business, we have established strategic partnerships with a number of industry and academic partners including MIT's Industrial Liaison Program (ILP), Material ConneXion, ArtCenter College of Design and Taipei Tech to collaborate on new technology related to furniture structure and mechanisms, new materials development and design concepts.

For a luxury brand beauty customer, new techniques in manufacturing from digital printing to sound engineering came into play. The end product, a fragrance, included over a dozen components and required collaboration with multiple factories to create numerous prototypes. Using the principles of rapid prototyping, the product was not only visually stunning but also helped to create a culture of collaboration and innovation within our own team as well as with our customer and factory partners, while driving efficiency along the entire development process.

## New Ways of Working

Across the company we have embraced new ways of working in an effort to bring speed into the heart of our operations, business and working spaces.



Speed is central to the brands and retailers we work with. Our customers are under pressure to meet the ever-changing needs of consumers who expect to see the latest runway trends immediately available in stores and who expect the products they order online to arrive at their doorstep the next day. For our customers, getting product to market faster is a competitive advantage. By leveraging the latest digital tools, we are reshaping pre-production processes and bringing enhanced value. Over 2016 we began using software to create virtual samples instead of physical ones for our apparel customers. This significantly reduces waste and the length of time it would normally take to create and approve physical samples and get products into production faster.

Having more agile teams and businesses has allowed us to become more flexible with our business models to meet the needs of our customers. While the more traditional business models are still relevant, the growth of e-commerce and completely new technology-driven retail business formats are leading the fashion and consumer world. Through innovation and embracing the mindset of reacting quickly to change, we will be able to meet the needs of any new type of business that emerges in the future.

This shift is also reflected in the way we work internally. In 2016, we launched a global initiative called Ways of Working (WoW). The focus was to create work environments that promote wellbeing, speed and collaboration between colleagues with diverse backgrounds, skills and expertise. Recognizing that every aspect of design could make an impact, our aim is to have the majority of our offices around the world redesigned according to our WoW design guidelines over the next three years.

Globally, our teams are experimenting with digital tools that enhance collaboration, efficiency, and communication. Some are using Slack, a cloud-based collaboration tool for mobile and desktop, while others are using Workplace by Facebook. Whether it is being used on specific projects or among specific communities of like-minded people, Slack has proven to help our teams be more productive and collaborative.

As technology plays a bigger role in our business and operations, we have built more digital expertise into our IT capability, which led to the revamp of One Touch, an internal-only mobile application that puts key company information and administrative functions at everyone's fingertips. User experience experts redesigned the app to make several internal processes more intuitive and user-friendly. Our learning team is also focused on app-based learning to provide 'as needed' learning. As part of our new competency model for our logistics team, a customized competency profile app was built bringing a new learning experience to our colleagues who work at distribution centers.

## Learning from the Outside

At Li & Fung we are strong believers in continuous learning and bringing knowledge and best practices from the outside to share within the organization. From large-scale programs to grassroots movements, we take every opportunity to encourage our colleagues to be curious and encourage a culture and mindset of knowledge sharing.

In 2016, Singularity University, a Silicon Valley institution that brings together technologists, scientists, futurists, entrepreneurs and business people to explore opportunities created by the rapid advance of technology, led our leadership team through in a three-day program on disruptive technologies and exponential growth. The goal was for our leaders to gain an understanding of game-changing technologies like robotics, AI and 3D printing, and the potential impacts of these exponential changes to our world.

We also hosted sessions with Harvard Business School Professor Clayton Christensen, the world's foremost authority on disruptive innovation. Professor Christensen led discussions on how to address disruption and opportunities in the supply chain, helping our people understand how to innovate and adapt in the face of change.

## Open Innovation

2016 marked a major push around our innovation strategy with a focus on fostering a culture of open innovation within the company.

The big idea driving that strategy was challenging the notion that innovation belongs to just one person or team. We wanted to enable every colleague, team and operation across the company to feel inspired and supported to express their full innovative self anytime and anywhere.

With strong company values rooted in entrepreneurial beliefs, we knew that great ideas existed in every corner of the company and it was a matter of harnessing our collective wisdom. To tap into that wisdom we launched our first crowdsourcing platform, named The Kitchen, in January 2016. It was the largest, open-innovation experiment we have ever run at Li & Fung. The Kitchen uses an innovation management software platform developed by our technology partner, Spigit, and allows us to crowdsource ideas, expertise and input from all colleagues globally. In 2016, we successfully launched six crowdsourcing campaigns on different challenges, from defining our purpose to creating new innovative products or services. During the year over 2,000 of our colleagues collaborated on 650 unique ideas that originated from 30 different countries.

In July 2016 we launched the Guerrilla Sessions, a weekly event series where outside speakers are invited to share their stories of success and failure as it relates to their passion or purpose. Guerrilla Sessions are designed to help innovators around Li & Fung connect, learn and discover new ways of getting things done.

In introducing open innovation, a community of innovators from across the company, from different teams and countries emerged. To help foster that community and keep the conversations and connections going beyond The Kitchen, we created an open innovation community on Slack that is open to everyone in the company. All of these different experiments and grassroots initiatives to bring our global community of innovators together led to the formation of our open innovation unit called the wørkshop. With the objective of creating a culture of open innovation in the company, today the wørkshop comprises The Kitchen, the Guerrilla Sessions and our community of innovators.

**"Our ultimate objective is to foster and enable the culture of open innovation at Li & Fung.**

**Yi Hoo Ong,**
**Open Innovation Lead**


Home textiles being made by one of our suppliers in Shunde, China.

# Our supply chain

We partner with our customers and suppliers to create value through the supply chain.

# Our supply chain

We are reimagining today's supply chains to create a digital end-to-end network, from factory workers to consumers, that helps our customers and supply chain partners future-proof their businesses.

**15,000+**
**SUPPLIERS WORLDWIDE**

**TOP FIVE SOURCING COUNTRIES**

- China
- Vietnam
- Bangladesh
- Indonesia
- India

** The ranking is based on sourcing unit volume.*

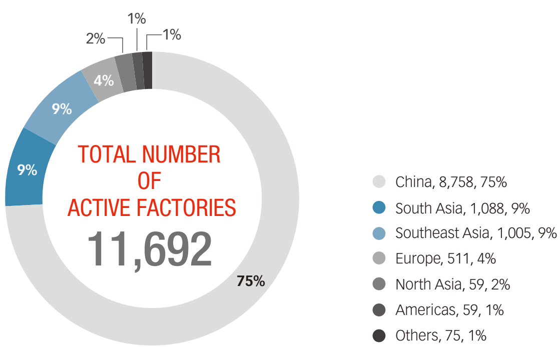
At Li & Fung we manage complex and unique supply chains from a network of over 15,000 suppliers in more than 40 economies around the world for our customers. Over the past 110 years, we have been developing and cultivating this network to help our customers navigate increasingly complex supply chains. Over 80% of our sourcing business by volume is concentrated on a core group of strategic suppliers that we work with over the long term, and where our positioning gives us more leverage and economies of scale.

Beyond this, we continue to work with thousands of other suppliers across major and secondary production countries so we can balance capacity constraints, deliver quick responses close to the end consumer, or respond to unforeseen incidents which may affect certain geographies. Lastly, we continuously search to complement our core network with suppliers who bring us diversity in terms of their specific capabilities, unique technical skills or specific equipment.

Addressing challenges and opportunities in our supply chain is integral to our Sustainability Strategy. Our initiatives focus on three areas:

- Managing risk and furthering compliance in our supply chains
- Sourcing responsibly
- Collaborating with customers, suppliers and other partners to build sustainable supply chains

Number and Percentage of Active Factories[1] by Region




1 *Active factories had orders shipped within 24 months prior to 31 December 2016. Due to rounding, the percentages do not total exactly to 100%.*

## Supply Chain Compliance

We manage supply chain risk through a process involving risk assessment and strategic decision making whereby we direct and develop business with suppliers who have enhanced capability and lower risks, while supporting other suppliers to improve their performance.

Supplier risk assessment starts with Li & Fung's Supplier Code of Conduct[2] that outlines the minimum standards, in accordance with the International Labour Organization's Core Conventions and local laws, for human rights and labor, safety, environment and security, as well as transparency and ethics. All suppliers must accept these minimum standards as a condition of doing business with us. The Supplier Code of Conduct is complemented by Guidelines which offer suppliers advice and practical resources for implementing the Supplier Code of Conduct within their operations.

Performance against the Supplier Code of Conduct is assessed by Li & Fung, external audit firms approved by us or our customers, or independent industry organizations. When non-compliance issues are identified, the factory is required to commit to rectifying the issue through a Corrective Action Plan, with varying timelines from immediately to three or six months, depending on the severity of the issue. We also continually monitor our factory network for one-off incidents that may occur outside of the assessment cycle. Should these occur, we immediately investigate and track remedial actions on an ongoing basis. In every case, our concern is to protect the workers in the factory concerned, reduce the risk, and support the factory for business continuity.

To support suppliers in their efforts to improve performance, we offer tailored programs to meet factories' needs for training and capability building on a variety of topics. Our goal in offering these programs is to equip suppliers with the skills to develop their businesses sustainably and drive their own continuous improvement.

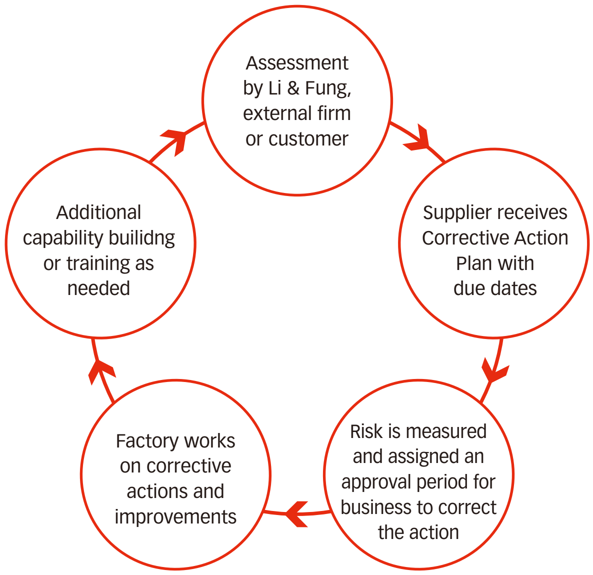
“

**We are committed to building sustainable and responsible supply chains that are transparent.**

**Richard Darling,**
**Head of Government and Public Affairs**

2 *https://www.lifung.com/wp-content/uploads/2015/03/CoC2015-English.pdf*

The diagram below illustrates the complete risk management cycle:




The above risk assessment and management process is supported by the continued roll out of our Observer Development Program, which trains and certifies quality assurance and control (QA/QC) teams to identify potentially high-risk safety and labor issues within the factory. The program leverages the fact that the QA/QC teams are in factories on a daily or weekly basis, thus significantly boosting our ability to manage and monitor risk. The teams also engage with factory management on a range of other issues, and their presence as a supplement to our risk assessment process has been beneficial. To date, 43% of our QA/QC personnel have been trained as certified observers.

## Supplier Monitoring Process

To stay abreast of changing industry and regulatory requirements, Li & Fung continually engages directly with policymakers and participates in a number of industry consortiums that contribute to the development of relevant standards and norms. In recent years, we implemented changes to align our systems to the requirements of the California Transparency in Supply Chains Act and the UK Modern Slavery Act. The 2015 enhancements to our compliance process included updated versions of the Supplier Code of Conduct, accompanying Standards and Guidance, the introduction of a new audit tool, rating and grading system, as well as an expanded audit equivalency program and audit scope. Our new process has broken new ground in two key ways:

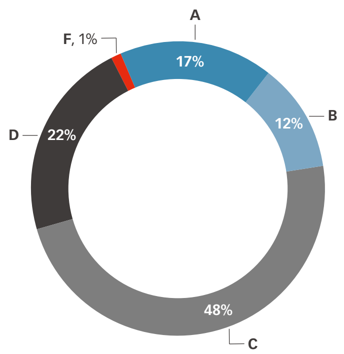
- By outsourcing the majority of onsite audits to four key industry social compliance audit firms, we increased visibility into our active factories
- By rolling out our global equivalency program, over 70% of active factories were able to reduce the number of audits that they were subject to, by submitting a single report to a certified standard (including Better Work, Fair Labor Association and Business Social Compliance Initiative)

This evolving compliance process aims to reduce costs in the supply chain and allow suppliers to focus their efforts on implementing improvements in their operations to achieve sustainable compliance, instead of on repetitive, resource-draining audits. The expanded visibility and information that is available from this new process allows us to assess supply base compliance risk more effectively and establish a baseline from which future improvements and goals can be directed. Response from suppliers to our new process is increasingly positive when they are directed towards one set of requirements and improvements.

Global compliance ratings for factories in our supply chain, as assessed by Li & Fung and external parties, and by our customers' rating processes, are provided below. As critical issues are identified, suppliers are required to remediate for sustained change through awareness raising, training and building management systems to achieve and maintain compliance. Information gathered to date raises similar issues to those found in the rest of the industry, with the top three areas related to: social benefits, safety and working hours.

Our involvement in industry platforms and our collaboration and relationships with our customers and other industry players allows us to leverage greater and unified resources to assist suppliers to make lasting changes to workplace conditions. We will continue our efforts to support our suppliers as developing and working with an accountable and motivated supplier base creates a win-win situation for every stakeholder in the supply chain.

## Factory Compliance Ratings Aggregated Globally[3]




**A** Factories in compliance with Li & Fung's Standards that may have minor issues for improvement, with a re-audit required in 18 months

**B** Factories that have at least one issue that requires improvement with a re-audit required in 12 months

**C** Factories that have at least one issue that requires substantial improvement with a re-audit required in 9 months

**D** Factories that have at least one issue that requires immediate improvement with a re-audit required in 3 months

**F** Factories that have at least one zero tolerance issue and are ineligible for new business and an audit for 6 months

* *Factories receive ratings from A to D; conditions for F-rated factories are outlined above.*

3 *Based on active factories rated by Li & Fung and third parties with orders shipped within 24 months prior to 31 December 2016.*

Sustainability Resource Center Website Metrics in 2016

**5,824**
WEBSITE VISITS

**33,326**
PAGE VIEWS

**3,787**
RESOURCE DOWNLOADS

**2,338**
VIDEO VIEWS AND/OR DOWNLOADS[4]

## Supplier Capacity Building

We are committed to building capacity across our supply chain to improve general working conditions for workers and enhance efficiency and investment in the supply chain overall. Improving factory operations and performance contributes to our long-term goal of building sustainable global supply chains.

Li & Fung's assessment, technical support and capacity-building efforts focus on establishing better-managed factories with improved working conditions. We believe that to achieve sustained change in the supply chain, it is essential to support factories to meet compliance standards, and to also ensure that suppliers have the knowledge and training needed to integrate social and environmental best practices into their day-to-day operations.

To further these objectives, we continue to implement training programs for factory representatives and our own employees on a number of topics, including new international requirements, local regulations and customer-specific requirements. In 2016, we held over 630 sessions for more than 8,240 factory representatives and 3,570 of our own employees.

A snapshot of the types of training provided to our employees and suppliers in 2016 is presented in the table below.

| Audience | Training Topics |
|---|---|
| Li & Fung Employees | • Conflict Minerals<br>• Greenpeace's Detox Campaign<br>• Environmental Management<br>• Human Trafficking & Forced Labor (Modern Slavery)<br>• Lean Manufacturing<br>• Observer Development Program<br>• Subcontracting Standard<br>• Sustainable Apparel Coalition (SAC) Higg Index Verification |
| | **No. of People Trained:** 3,579 employees |
| Li & Fung Suppliers | • Achieving C-TPAT Standards<br>• Achieving Sustainable Compliance<br>• Conflict Minerals<br>• Employment Practices & Employee Relations<br>• Environmental Sustainability<br>• Fire & Electrical Safety<br>• Hazards Identification & Risk Assessment<br>• Human Trafficking & Forced Labor (Modern Slavery)<br>• Li & Fung Code of Conduct Orientation<br>• Root Cause Analysis<br>• Social Dialogue<br>• Subcontracting Standard<br>• Worker Management Communication |
| | **No. of People Trained:** 8,247 factory representatives |

4 *This includes a total of 16 videos in 14 languages on the topics of good governance, manufacturing excellence, underage labor, managing working hours, worker management relations, chemical safety and electrical safety.*

In 2016, we continued to shift the strategic focus of our compliance work from offering audit-based services to remediation and capacity-building services. We provide our suppliers with the education, training and tools to upgrade their operations and comply with industry and international standards.

Examples of the training modules we offer include:

- An orientation program for generally-accepted compliance standards, including our Supplier Code of Conduct and accompanying Guidance
- Introduction to basic principles of safety management in factories, including the most common issues of fire, electrical, building and structural safety
- Tailored programs focused on good practices and management systems to sustain compliance

Our Sustainability Resource Center website continues to evolve and provide suppliers with multilingual compliance resources and tools, industry updates and training schedules designed to help suppliers better understand key compliance and operational issues. Videos on a range of topics and targeted at both management and workers are available on our website. In May 2016, we made these 16 videos in 14 languages publicly accessible on a dedicated YouTube channel. They have since been viewed over 18,700 times.

Visit our YouTube channel[5] to view our videos in multiple languages.

Toolkits on how to improve key areas of business operations are also available on the website and cover topics such as:


5 https://www.youtube.com/channel/UCaIV_MGCkl0prY88YHpEaLg

In 2016, we also conducted a total of 2,304 training sessions in 15 countries across our global supply chain, including Bangladesh, Cambodia, China, Guatemala, India, Indonesia, Korea, Mexico, Pakistan, Philippines, Sri Lanka, Taiwan, Thailand, Turkey and Vietnam, on material issues related rated to compliance and performance improvement, as outlined below:

TOTAL NUMBER OF TRAINING SESSIONS: 2,304

25 sessions for
ENVIRONMENTAL MANAGEMENT

652 sessions for
HEALTH & SAFETY

373 sessions for
SECURITY COMPLIANCE

981 sessions for
SOCIAL COMPLIANCE

43 sessions for
SUBCONTRACTING

64 sessions for
CONFLICT MINERALS, HUMAN TRAFFICKING & FORCED LABOR

OTHERS[6]
166 sessions

6 *"Others" cover a variety of topics ranging from HERproject workshops in Bangladesh to customer-specific compliance training sessions.*

## Social Dialogue Program – Bangladesh


To raise awareness of and improve the relationship between factory management and workers, we launched a social dialogue program for our supply base in Bangladesh (outside the Export Promotion Zones). We are among the first in the industry to launch a program targeting middle management in Bangladesh with a focus on freedom of association, participation committees, safety committees and grievance handling. The program was developed in partnership with Just Solutions, a UK-based organization with extensive experience in improving industrial relationships in Bangladeshi factories.

Since the launch of the program in February 2016, we have conducted four, half-day introductory sessions covering 96 suppliers across 152 factories and 185 members of factory senior management.

Following the introductory sessions, we conducted a further 20, three-day sessions attended by 360 participants from 106 factories. The training raised awareness among factory management of the advantages of actively engaging workers in constructive workplace dialogue and of best practices in successful social dialogue from other factories. Participants gained deeper insight into the increasing importance of the ability of factory owners and managers to lead the development of mature social dialogue and engagement with workers. The program is expected to continue into 2018.

## Worker-management Communication Program

We recognize that improving worker-management communication is the basis of a sustainable enterprise and positive working conditions. Without effective two-way communication, workers and management do not have a foundation to raise concerns and effect change. To bring this value into our supply chain, Li & Fung engaged the Swiss training and coaching consultancy Equiception to train our own employees on worker-management communication and facilitation skills that can be deployed in our supplier training programs.

The program was initially launched in China, where a number of factories are now engaged through training, and has been expanded to other markets in our global supply chain.

## Sustainable Sourcing

Our approach to sustainable sourcing is to work with our customers, suppliers and industry partners to further the adoption of standards and best practices. We also provide our customers with sustainable design, manufacturing, product and packaging options, to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Some of the ways we helped customers source products and packaging with sustainability attributes include:

**Apparel**

- Garments that comprise:
  > Cotton from certified organic sources, such as the Global Organic Textile Standard
  > Cotton that meets the Better Cotton Initiative standard, Fairtrade standards, the Organic Content Standard 100 or Blended and/or has been produced by mills that have joined Cotton LEADS™ as partners
  > Cotton from traceable sources with country of origin certificates
  > Linen from certified organic sources
  > Recycled yarn, polymers, leather and shearling
  > Wool from traceable sources that meet non-mulesing declaration requirements
  > Fur-free materials and/or responsibly-sourced angora wool or down feathers
  > TENCEL®, a Lyocell fiber produced from sustainably-harvested wood in a closed loop, water-efficient process
  > Teflon EcoElite™ water-repellent, a non-fluorinated fabric treatment that is manufactured with 60% renewably-sourced raw materials
  > Hangtags made of recycled paper
- Garments that are shipped in polybags from recycled materials and/or are shipped in a “flat pack” without the use of hangers
- Textiles that are independently tested and certified to meet the Oeko-Tex® Standard 100 criteria, REACH requirements and/or are produced in factories certified under the bluesign® system
- Textiles and shoes sourced from suppliers that are phasing out hazardous chemicals in production for customers committed to Greenpeace’s Detox campaign
- Leather for shoes, wallets, covers and pouches produced from tanneries that are audited against the environmental responsibility practices of the Leather Working Group

**Beauty Products**

- Items that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants
- Products that meet industry standards and incorporate ingredients such as community trade olive oil, shea butter and brazil nut oil, RSPO-certified[7] palm oil derivatives and organic babassu oil, fine sugar and rosehip oil in formulation design. Our manufacturing facility in Trowbridge uses raw materials certified to the Soil Association's organic standard and its usage of organic and community trade ingredients increased from 71 tonnes in 2015 to 74 tonnes in 2016
- Product packaging and carton board that is Forest Stewardship Council™ (FSC™)[8]-certified
- Wet wipes that comprise 100% cellulose fabric and are dispersible and biodegradable
- Toothpaste that was the first to be certified as organic in the world under the Oregon Tilth certified organic (OTCO) program; our manufacturing facility in Tonawanda also is a member of Oregon Tilth and is a FDA-registered manufacturing facility. The facility manufactures a variety of products with OTCO Certification Acknowledgement, which are declared by Oregon Tilth to be in compliance with the NSF/ANSI 305 Organic Standards program, as well as products that meet the Natural Products Association (NPA) Natural Standard, certifying that they contain natural/biodegradable ingredients, are manufactured with appropriate processes to maintain ingredient purity and have environmentally-responsible packaging
- Additionally, we are working with a customer to develop a dedicated product stewardship program to assess and improve the sustainability of products, packaging and manufacturing processes

*7 Palm oil derivatives certified under the Roundtable for Responsible Palm Oil (RSPO)'s mass balance or segregated models.*

*8 FSC license number FSC-C113132.*

| | |
|---|---|
| **Household and Other Items, Furniture and Packaging** | • Household items, furniture and packaging made from wooden/ paper materials that are FSC[9] or Programme for the Endorsement of Forest Certification (PEFC)-certified, and meet the chain-of-custody requirements of the European Timber Regulation (EUTR) where applicable |
| | • Household items, utensils and furniture made from natural materials and fibres ranging from bamboo, roots and branches of organic teak wood and wood from spent rubber trees, to banana bark and water hyacinth |
| | • Gadgets made of recycled plastic and photo frames comprising recycled polystyrene foam, with recyclable packaging |
| | • Packaging, luggage and other items using polyethylene terephthalate (PET) instead of polyvinyl chloride (PVC), polypropylene (PP), polycarbonate (PC) or acrylonitrile butadiene styrene (ABS), as well as PVC-free packaging material for polybags, clips, gum tape, strings, collar inlays and zippers |
| | • Reporting to customers on the processes in place and supplier compliance in meeting legislative requirements related to chain-of-custody requirements for wood products[10] and components containing reportable minerals[11], and required testing standards, such as BIFMA[12] for furniture. This includes conducting product risk and traceability assessments for customers by raw material categories |

*9 FSC license numbers FSC-C113132, FSC-C114681, FSC-C116575 and FSC-C129309.*
*10 As per the United States' Lacey Act of 1900.*
*11 As per the United States' Dodd – Frank Wall Street Reform and Consumer Protection Act of 2010.*
*12 Business and Institutional Furniture Manufacturers Association (BIFMA).*

## Industry Collaboration

Li & Fung is involved in key industry initiatives that bring our customers and industry partners together to effect change. Our collaboration efforts are focused on implementing programs that address the particular challenges of our industry and specific production countries where we operate.

### Bangladesh

We remain actively engaged in key collaborative efforts in Bangladesh, working with governmental and non-governmental organizations, industry partners and suppliers to improve factory conditions.

As advisors to the Boards of both the Alliance for Bangladesh Worker Safety (Alliance) and the Bangladesh Accord on Fire and Building Safety (Accord), we fund and engage with both programs at the highest level. In 2016, both initiatives focused on education and the remediation of safety issues that surfaced through in-depth safety audits. We jointly organized a number of activities and reviewed progress over the course of the year, all of which contributed to continuous improvements being made by suppliers:

- Li & Fung representatives participated in 459 factory visits and 199 meetings with factories to support the Alliance and the Accord
- Two training sessions were held and attended by over 180 factories with a total of 246 participants
- Li & Fung arranged 24 joint meetings with other signatories/brands of the Accord and the Alliance for 65 common factories to expedite remediation

In addition to our support of the Alliance and Accord initiatives, we continued to conduct training sessions on fire, structural and electrical safety for factory management and workers, and to strengthen the capability of our own QA/QC and merchandising teams in Bangladesh on these same compliance issues.

### Cambodia

Since 2014, we have engaged with the Government of Cambodia to raise awareness of building safety. This effort led to the establishment of an inter-ministerial Working Group to develop Cambodia's Building Safety Code, comprising the Ministries of Land Management, Urban Planning and Construction, Labor, Industry and Handicraft, Health, Interior and Environment. The International Code Council was appointed as the technical advisor to the Working Group to assist in drafting the Building Safety Code. The draft Code has been submitted to the inter-ministerial Working Group for review and is currently undergoing intensive discussion and finalization.

## Better Work

Li & Fung continues to be an active Buyer Partner of Better Work. In 2016, we specifically supported the program in Bangladesh, Cambodia, Indonesia, Jordan and Vietnam.

## Business for Social Responsibility (BSR)

We continue our partnership with BSR to implement the HERproject, with the support of the Fung Academy. The project uses impactful peer-to-peer training and a local partner network to empower primarily female workers through education on nutrition, health and finance, and on improving workplace interaction, harmony and efficiency. Since 2015, indications of positive impact from the project show reduced absenteeism and sick leave and improved workplace communication.

| Country | Program | No. of Factories | No. of Workers |
|---|---|---|---|
| Bangladesh | HERhealth | 41 | 87,000+ |
| Cambodia | HERhealth + Nutrition | 11 | 17,000+ |
| India | HERhealth + HERfinance | 20 | 43,000+ |
| Vietnam | HERhealth | 15 | 31,000+ |
| **TOTAL** | | **87**[13] | **178,000+** |

Visit our YouTube channel[14] to view a video of how we make an impact with the HERproject in Cambodia.

## Center for Child Rights & Corporate Social Responsibility (CCR CSR)

Li & Fung participates in the Hong Kong working group focused on the prevention and awareness raising of underage labor in the supply chain. In 2016, our teams in China and Southeast Asia also participated in a survey conducted by CCR CSR to identify key aspects related to underage labor and standard processes in place for remediation. The survey data informed the 2016 Conners report[15], "Insights on Child Labor Response Practices in Asia Pacific."

*13 As the HERproject continues over annual reporting periods, some factories complete and others join the program during the reporting year. In 2016, the program reached over 4,000 more workers than in 2015.*
*14 http://www.youtube.com/watch?v=eGWYP0fF5u8*
*15 http://www.ccrcsr.com/resource/548*

## Mekong Club

We established a partnership with the Mekong Club on a focused initiative around modern slavery. The first step was to hold a workshop in September 2016 on how to raise internal awareness on the issue of modern slavery, and to start the joint development of a risk assessment tool. We will continue to partner with the organization on sustainable solutions to address modern slavery.

## Sustainable Apparel Coalition (SAC)

### Higg Index

We continue to be actively involved in the development of the Higg Index, a suite of sustainability tools to help organizations standardize measurement and evaluation of the environmental performance of apparel products at the brand, product and facility levels.

In 2016, Li & Fung participated in the SAC's regional and global meetings, provided input on the Higg Analytics platform and worked with a key customer and the SAC to pilot Advance Analytics for Higg Index data. As SAC makes further updates to the tool, we will support further pilot testing in a number of factories in 2017. Additionally, Li & Fung was certified as a preferred service provider for environmental training and onsite verification activities for factories as recommended by SAC and its members. In addition, we also continue to support the SAC's partnership with the Natural Resources Defense Council to implement Clean by Design, an initiative to reduce environmental impacts from manufacturing, in several textile mills in China.

### Social and Labor Convergence Project

Li & Fung is a signatory to the SAC Social and Labor Convergence Project, an industry collaboration project launched in 2016, which seeks to develop a simple, unified and effective industry-wide assessment framework. In this project, we participate in the working groups for tool development and verification to provide valuable contributions through both our customer and supplier insights and our experience with creating a convergence tool for our diverse customer and supply base.

# Our communities

We engage our people to meaningfully contribute to our communities.

**Volunteers from our Hong Kong office take some elderly residents of Sham Shui Po for a tour around the city, including a visit to the Wishing Tree in Tai Po.**

# Our communities

We are committed to making a positive impact in the communities where we live and work. Our newly formed Li & Fung Foundation is activating communities, convening the supply chain and focusing on exponential impact. We are in it together, striving to make life better for a billion people.

Caring for, and investing in, our communities is a key part of Li & Fung's Sustainability Strategy and is integral to building sustainable communities and economies that will thrive for generations to come.

We believe that creating positive impact goes hand-in-hand with having a successful business. Community engagement helps us attract and retain employees and helps them better understand our local communities and their needs. Our communities and our people grow, develop and transform through community engagement activities.

We provide resources and support for volunteering, we share our knowledge and skills, and we raise funds to support initiatives, campaigns and disaster relief. Each activity is tracked to measure the inputs, outputs and outcomes, and we conduct qualitative surveys to track our longer-term impacts. We share our metrics with our people and community partners and we use these metrics to review the focus and effectiveness of our programs. Our community partners have a close connection with the beneficiaries of our activities and also help us to report and share stories and statistics on how we are creating impact. Guided by the interests and impact of our volunteers, we aim to support long-lasting, sustainable activities that matter to our beneficiaries, volunteers, colleagues, supply chain, and align with our values.

## Introducing the Li & Fung Foundation

In 2006, the Fung (1906) Foundation was established to support colleagues within the Fung Group around the world, including Li & Fung colleagues, to engage in and contribute to the communities in which they live and work. In 2016, the Fung (1906) Foundation was renamed the Li & Fung Foundation and it is now the corporate foundation of our company, to guide and support our initiatives to make a difference along the supply chain and in our communities. We aim to harness our strengths, including our global networks, local knowledge, relationships and some 22,000 people that we have in more than 40 markets, to make positive impacts that are scalable and sustainable.

Our foundation's strategic focus is in the following three areas: activating communities, convening the supply chain and focusing on exponential impact.

## Activating Communities

We harness the expertise, interests, time and talent of our people around the world to raise awareness and take action to help meet social and environmental needs. Colleagues around the world continue to volunteer their time and share their skills to help transform lives and contribute to the wellbeing of our communities through locally-organized activities and global campaigns. In 2016 we implemented an improved system for colleagues to log volunteer hours via our self-serve app, One Touch. Moving forward we will develop a recognition platform for those who make a difference in activating communities.

## Convening the Supply Chain

We leverage our networks, people and partnerships for impact to build sustainable shared value. We recognize the power of collaboration to bring about change in the industry, so we partner with customers, suppliers and other industry stakeholders around the world to address the development challenges our industry faces.

## Focusing on Exponential Impact

We plan to harness technology, information, networks and passion to create great change in the world, partnering with companies and organizations inside and outside of our ecosystem. We believe in the power of exponential thinking and actions to create a better world for our people and the communities in which we live and work, and for workers in our supply chains.

We have a bold and ambitious vision that started with the question: Imagine if we could make life better for people in the supply chain? We believe we're in a unique position to help make a positive impact for a billion people along our supply chain, from workers to consumers.


**"We are excited to establish our own corporate foundation and expand our efforts to make a difference along the supply chain and in the communities where we operate.**

**Karen Seymour,
Executive Director,
Li & Fung Foundation**

## The Li & Fung Foundation Board

Our Board brings together a diverse group of business leaders who exemplify the courage and heart it takes to put purpose at the center of our business. It is chaired by our Group CEO, Spencer Fung. Other executive committee members include: Lâle Kesebi, Director, Karen Seymour, Executive Director, and members, Richard Darling, Terence Fung, Alice Lai, Vera Lam, Emily Mak and Robert Sinclair.

During 2017, the Li & Fung Foundation will focus on its strategy to make scalable, sustainable change in the supply chain by finding solutions that can provide exponential impact to our initiatives in our communities.

Learn more about the Li & Fung Foundation on its website.

## 2016 Community Impact Results

Our people volunteered almost 9,500 hours for hands-on activities such as tree planting and working with children, over 9,400 hours to participate in awareness-raising activities on issues ranging from women's and men's health to environmental sustainability, and over 800 hours for other events, including in-kind donation activities and fundraisers.

Our colleagues generously donated over US$152,000 to support community initiatives in 2016, including children's education sponsorships, disaster relief, global campaigns for both women's and men's health and a wide variety of programs to care for local communities. In addition, our company donated over US$615,000, providing further support for charitable organizations and activities around the world.

Our activities are sponsored by the Li & Fung Foundation and in 2016 many also had the support of the Fung (1906) Foundation. These organizations provide funding for hands-on community service and match funds from a number of fundraising activities, to help spur on our people's volunteerism and generous donations. Disaster relief donations made by our colleagues were also matched by the Fung (1906) Foundation and the Fung Hon Chu Foundation. In 2016, support from the foundations was almost US$1.48 million[1].

The effectiveness of our activities has increased year-on-year since we began reporting more systematically in 2011. Our aggregated metrics since 2011 include our employees volunteering over 79,000 times and giving 151,000 hours to support almost 1,600 social and environmental initiatives around the world.

Since 2011, our employees have also donated over US$1.67 million to support communities, the Fung (1906) Foundation and the Li & Fung Foundation have provided over US$3 million to further support some of these projects, and our corporate donations have totaled US$6.26 million.

**395** ACTIVITIES

OUR PEOPLE VOLUNTEERED **16,500+** times

**72** LOCATIONS in **28** COUNTRIES participated in community initiatives

**19,500+** VOLUNTEER HOURS

almost **15,000** WORKING HOURS

**5,000 +** NON-WORKING HOURS

1 *This comprised almost US$1.27 million from the Fung (1906) Foundation before it was transferred to Li & Fung, over US$207,000 from the Li & Fung Foundation and US$7,000 by the Fung Hon Chu Foundation for matching some disaster relief contributions from colleagues.*

## Community Impact in Action

Our local actions and global campaigns harness our core business strengths to support the development of our people, communities and local economies. We engage the time and talent of our people and establish networks of community partners.

Our community engagement ambassadors inspire our people, share information, connect with community partners, organize activities, and track outcomes and results. In 2016, we continued to publish our community engagement newsletter and increased its frequency to twice a month to inform, encourage, recognize and inspire our colleagues.

With over 85 community partners worldwide, we work directly with communities to maximize impact. Due to the wide-ranging needs and interests of our communities, we have partnered with a variety of organizations including: the Asian University for Women (AUW), Business for Social Responsibility (BSR), cancer funds in various markets, Captivating International, Crossroads, Habitat for Humanity, Junior Achievement, Movember Foundation, Red Cross/Red Crescent, Room to Read, The Women's Foundation (TWF), World Vision and World Wide Fund for Nature.

Supporting our people to meaningfully contribute to our communities is an important part of our Sustainability Strategy. In 2016, our key focus areas remained: investing in the potential of people, helping communities in need and mobilizing for change.

### Investing in the Potential of People

Giving people the opportunity to learn and grow helps transform lives and contributes to the wellbeing of our communities. Throughout our network, we partner with local organizations to help children, youth and adults who may be disadvantaged or disenfranchised to access education, learn new skills, and grow personally and/or professionally. We provide generous donations, sponsorships and volunteer our time to make a difference.

Our activities in 2016 included:

- Sponsoring girls' education and daily living essentials in a safe and nurturing environment and empowering girls with vocational training in China
- Over 3,000 students benefiting from engagement activities such as tutoring, donations of goods, workshops, tree planting, sustainability seminars, career talks, academic counseling, and life coaching in Bangladesh, China, Hong Kong, India, Pakistan, Sri Lanka and Turkey
- Partnering with AUW, Junior Achievement and TWF to empower, engage and uplift underprivileged but high potential young adults. We shared our skills, experience, and expertise through career workshops, speaking engagements, mentorships, coaching, work placements, financial support, and internships in Bangladesh and Hong Kong

Visit our website to read more about how we invest in the potential of people.

### Helping Communities in Need

The communities where we live and work are as unique geographically as their specific needs. To make a meaningful difference, we seek to raise awareness of social and environmental issues to maximize impact. We do this by mobilizing our people through both global campaigns supporting universal causes and locally-organized activities that target specific needs. Our global campaigns include common causes such as men's and women's health, blood donations and caring for the environment. We support a number of local initiatives that address social needs and enhance livelihoods.

Our activities in 2016 included:

- Collecting over 775 kg of waste from coastlines and cityscapes, planting over 5,000 trees, holding workshops and raising awareness about environmental impacts in many places where we work and live, including the Dominican Republic, France, Korea and Thailand among others. This was part of our third annual "Clean up our World" campaign
- Investing in the health of our people and communities through awareness-building activities, workshops, fundraisers and seminars. We also installed pipes and water tanks to provide clean water for a rural village in Indonesia, organized sporting events for children with disabilities, sponsored running events, and promoted health campaigns. Our month-long women's health awareness campaign saw over 2,500 employees dress pink around the world, from Chile and Nicaragua to Portugal. Our men's health awareness campaign, Movember, reached colleagues all over the world, including Germany, Hong Kong, Taiwan and the United Kingdom, and for the third year running, Li & Fung was the top fundraiser in Hong Kong
- Donating 850 pints of blood and raising awareness for humanitarian needs in 46 of our offices around the globe, from Indonesia to Italy, potentially saving up to 2,550 lives[2]. In Hong Kong, we supported the Red Cross with our 18th year of blood donations

**"Li & Fung brings financial and emotional support to vulnerable young women. By sharing their personal journeys and offering practical advice, these compassionate Li & Fung employees inspire teens to succeed.**

**Lynn Schnurnberger,**
**Founder and Executive Director,**
**Foster Pride, New York, USA**

*2 Determined based on calculations from www.bnl.gov where each pint of blood donated could potentially save as many as three lives.*

- Fundraising and donating in Asia, North America and South America to give support for those impacted by a damaging earthquake in Ecuador and flooding in Malaysia and the US. We also provided donations such as food, tutoring, books and school supplies in Cambodia through an ongoing partnership with Cambodian Children's Fund
- Helping to improve schools through hands-on refurbishment and betterment projects in Bangladesh, Cambodia, China, India, Pakistan and Turkey, including mural painting activities, computer lab donations and construction, and basic school maintenance activities, such as painting and fence repairs
- Providing clothing, jackets, school supplies, trees, and yarn along with volunteer time and financial support to refugees, students, the elderly, children in need, underprivileged women, orphans, and homeless in Bangladesh, Brazil, Cambodia, Guatemala, Hong Kong, India, Malaysia, Mexico, Pakistan, Philippines, Singapore, the US and Vietnam
- Engaging over 1,700 family members and friends, who gave over 4,300 volunteer hours to local communities in more than 20 locations around the world to extend our positive impact in our communities. These volunteer efforts included hands-on community support projects, environmental projects, education projects, blood donations, health and wellness campaigns, fundraisers and donation drives

Visit our website to learn more about how we help communities in need.

## Mobilizing for Change

Li & Fung's supply chain is the foundation of our business and a connector of communities around the world. Working with our customers, suppliers and community partners we share our skills and expertise, leverage our networks and people for action and impact, and create new business opportunities to effect change. We focus on raising awareness and building capacity for both workers and communities.

We strive to improve livelihoods, support people who were previously excluded from employment to find meaningful work, and develop new business opportunities that support sustainable local economic development.

Some of our activities in 2016 included:

- Continuing our partnership with BSR to empower factory workers, most of whom are female, in Bangladesh, Cambodia, India and Vietnam through the HERproject. These workers benefit from education on nutrition, health and finance, and on improving workplace interaction, harmony and efficiency. In 2016, over 178,000 workers and 87 factories were involved, and positive results measured included reduced absenteeism and sick leave and improved workplace communication
- Inviting outsourced cleaners and office assistants in Bangladesh to participate in twice-weekly sessions to improve English and life skills, plus triannual environmental education courses to learn more about conserving water, electricity and paper in an ongoing effort to raise environmental awareness within the communities. High potential participants were given the opportunity to continue training and apply for work within Li & Fung
- Working with our logistics operations to collect and deliver used clothes to help support Hong Kong's sustainable fashion industry
- Inviting over 300 workers from two factories to attend and participate in health seminars during women's health awareness month in Cambodia to increase the scope of our campaigns to our communities
- Social inclusion was a focus for our logistics facility in Taiwan and our beauty manufacturing operations in China where our colleagues helped disabled people find meaningful work packing and producing goods, respectively. These workers were integrated with other workers and they now have both long-term income opportunities and work experience. Our beauty business also worked with a factory in an underdeveloped area of China to increase opportunities for workers and improve social inclusion

Visit our website to read more about how we mobilize for change within the supply chain.


Our Cambodian colleagues and their families enjoy planting mangroves to help restore a precious ecosystem near Phnom Penh.

# Our footprint

We responsibly manage our operations to reduce our impact and raise awareness to champion change.

# Our footprint

We take action to reduce the environmental impact of our operations. 2016 marks the seventh year of implementing our holistic Sustainability Strategy, which plays an important part in raising our colleagues' awareness and enabling us to make progress in achieving our targets.

We are committed to managing our environmental footprint responsibly and we leverage our resources and engage our people to make a difference along our supply chain. As part of our Sustainability Strategy, we focus our actions on:

- Raising the environmental awareness of our people and supporting them to take action
- Designing sustainable workplaces
- Managing our resources responsibly

We conducted an Investment Grade Audit of our Hong Kong headquarters in 2010, implemented two rounds of energy-efficiency upgrades and retrofits since then, and conducted our second survey in 2016 to ask our global operations to identify what they are implementing to help reduce our environmental footprint. Responses showed we continue to implement best practices in how we operate, maintain, retrofit and fit out our global offices, distribution centers (DCs) and manufacturing facilities. This includes adopting measures to enhance the sustainability of our workplaces and to reduce consumption and waste, enhance recycling and expand our procurement of items with sustainable attributes, as well as investing in energy-efficient building systems, equipment and lighting, water-efficient equipment and fixtures and fuel-efficient transport. We also conduct assessments as part of all capital expenditure upgrades to adopt sustainable options. One area we will focus on going forward is waste management, including renewed efforts to reduce waste and to increase the capture of recyclables.

In recognition of our efforts to responsibly manage our environmental footprint over the years, we received the Hong Kong Award for Environmental Excellence – Gold Award for the Servicing and Trading sector and the Hong Kong Green Organization Certificate from the Hong Kong SAR Government's Environmental Campaign Committee in 2016.

Our commitment to the environment is also exemplified by our manufacturing facility in Trowbridge being recognized as a Marks & Spencer ECO Factory since 2011 and our facility in Bangkok that continues to enhance its comprehensive sustainability program. As a result of its environmental achievements, the facility has been awarded a number of awards and certificates from the Thai government, including the Good Environmental Governance Award and the Green Industry Certificate by the Ministry of Industry for the fifth consecutive year. In 2016, the facility was awarded the top honors of Level 5 for the Green Industry Certificate. In previous years, Level 4 had been achieved and this enhanced level recognizes its initiatives to engage suppliers, industry and community partners to improve overall environmental performance.

Systems to measure, track and manage our environmental performance are implemented across our operations with a total of six facilities certified to the ISO 14001 environmental management system (EMS) standard[1] and five audited to meet the requirements of the Sedex Members Ethical Trade Audit (SMETA)[2].

With the strategic divestment of our Asia consumer and healthcare distribution business in June 2016, we adjusted our 2015 and 2016 environmental data to exclude consumption associated with this business for comparison purposes and to establish an appropriate baseline for measuring our performance going forward. Consumption attributed to Li & Fung as a whole in 2016, which includes consumption by our Asia consumer and healthcare distribution business from January to June 2016, is reported on our website (www.lifung.com). In 2016 and based on our revised baseline, our overall greenhouse gas (GHG) emission intensity reduced by 5% and our absolute water consumption reduced. However, other key environmental indicators reflected both the expansion of our business activities, including between a 20 to 30% expansion of our logistics business in key markets, and the improved capture of consumption data by our new environmental data management system, which we transitioned to in 2016 to enhance our ability to track, manage and control the environmental impact of our own facilities. Over our next Three-Year Plan (2017-2019), we will review our global operations to better track consumption with both operational planning and activities to identify areas to reduce our environmental footprint.

**We remain focused on using resources efficiently, minimizing our environmental impact and reducing our contribution to climate change.**

## Environmental Awareness

We inspire and support our people to be mindful of how they can reduce environmental impact in their daily lives and we support them by taking action to reduce consumption and waste, and by expanding our procurement of items with sustainable attributes.

To support employee awareness and engagement, colleagues are involved in a variety of activities including efforts to conserve resources in our operations, plant trees, clean parks, river banks, beaches and coastlines, and protect coastal marine species.

To enable our some 22,000 people around the world to share best practices on environmental protection, we revamped our internal communications platform, One Family, and expanded its interactive features. Not only do we feature stories on environmental initiatives, our colleagues can generate and share content through a live feed, by commenting on articles, writing and following blogs and sharing videos around topics that interest them.

1 *Our manufacturing facilities in Bangkok, Dongguan and Jakarta, and three of our DCs in China, Singapore and Thailand, are certified to the ISO 14001 EMS standard. With the strategic divestment in June of 2016 of Li & Fung's Asia consumer and healthcare distribution business (refer to http://www.lifung.com/wp-content/themes/lifung_new/ir/view.php?id=158913), the manufacturing facility in Kuala Lumpur, which was previously part of Li & Fung's reporting scope, is no longer included.*

2 *Our facilities in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge are audited to meet SMETA requirements.*

## Sustainable Design

Integrating sustainability features into how we design, build and renovate our spaces – our offices, DCs and manufacturing facilities – is an integral part of our effort to reduce our footprint and maintain a healthy, safe and aesthetically-pleasing working environment for our people.

We maintain ergonomically-sound work areas and resource-efficient equipment and fixtures, and select building and interior fit-out materials, furniture and other items, as directed by our *Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors* and to meet third-party certification requirements.

In 2016, we maintain a total of 13 LEED[3]/BREEAM[4] certifications, including one platinum, six gold and five silver LEED certifications, and in addition, a Silver Class Green Building certification for our Rui Fang distribution center in Taiwan. Our new office in Paris is located in a BREEAM-certified building and our new DC in Singapore, which was certified to LEED Gold in 2016, also received the Green Mark Platinum rating from the Building and Construction Authority of the Government of Singapore.

This nine-story, one-million-square-foot, multi-temperature facility is Singapore's largest, automated and customs-bonded warehouse. The DC has a suite of best-in-class technologies and product-handling methods, including an automated storage and retrieval system (ASRS), semi-automated pallet shuttle system, robotics, put-to-light pick systems and market-leading, e-commerce logistics solutions. It also consumes 30% less energy than a facility we previously operated in Singapore, despite being four times larger. Other key features include:

- An intelligent lighting system, combining motion sensors and LED lights, that reduces electricity consumption, GHG emissions and cost. The LED lights are 45% more efficient and last 25 times longer than florescent lights, and emit much less heat compared to traditional metal halide lamps, which also reduces air-conditioning demand
- A mix of air cooling and ventilation systems that reduce energy consumption and improve air flow in large areas of the warehouse with varying temperature requirements. The building facade has composite panelling and glazing to minimize solar heat gain, acting as insulation to keep the interiors cool, which enhances the comfort and productivity of workers. With only half of the building being air-conditioned, the rest is cooled by seven-metre-wide, high-volume, low-speed fans that circulate extremely high volumes of air using much less energy than would be consumed by air-conditioning systems. Louvered windows are also used to maximize natural ventilation and air circulation

LEED GOLD 2016

BCA GREEN MARK

3 *Leadership in Energy and Environmental Design (LEED).*
4 *Building Research Establishment Environmental Assessment Method (BREEAM).*

- Energy-efficient variable speed chillers that are 20% more energy efficient than conventional systems, as well as air conditioning systems that are 40% more efficient with $CO_2$ demand control ventilation sensors
- High-efficiency, zero-emission handling equipment was adopted to avoid the indoor air pollution that arises from traditional, diesel-powered equipment and to also conserve energy. Examples include:
  - best-in-class, electric-powered forklifts, cranes, conveyors and semi-automated pallet shuttles that move goods throughout the warehouse
  - an electric-powered, high-density ASRS with narrow aisles that uses 25% less floor space than conventional storage systems, requiring less energy for lighting and temperature control
- Cooling towers consume NEWater – reused wastewater that has been treated through both dual-membrane (via microfiltration and reverse osmosis) and ultraviolet technologies and conventional water treatment processes, thereby reducing overall water consumption
- A Building Management System (BMS) integrated with the electrical, water and plumbing, mechanical ventilation and fire protection systems that optimizes temperature control and operating times within the building. Sub-metering linked to the BMS monitors performance and detects leaks for all major water uses
- Non-toxic paints and ultra-low VOC carpets used during the fit out of the indoor office areas benefit indoor air quality (IAQ) and workers' health. The IAQ management plan implemented with air filters provides 80-85% dust spot efficiency for key working and staff areas
- Sheltered bicycle racks and onsite showering facilities encourage people to adopt healthy and more environmentally-responsible transport options. Preferential parking for hybrid, fuel-efficient and car-pooling vehicles is also provided
- Recycling of at least 50% of waste arising from the construction process and of paper, plastic, glass and carton boxes during operations

## Resource Management

### Our Reporting Scope

2016 marks the final year of our current Three-Year Plan and our third year of comprehensively reporting environmental data against the 2014 baseline[5] for our Trading and Logistics Networks, and for Li & Fung as a whole. Our reporting scope covers over 150 offices, five manufacturing facilities[6] and over 230 DCs.

Visit our website for details on our performance in 2016, and our year-on-year performance over our Three-Year Plan 2014-2016. You can also read about best practices we implement to reduce the environmental footprint of our operations.

### Responsible Procurement

Our global procurement team leverages the scale of our network and focuses on implementing procurement best practices. In 2016, we continued to reinforce our Supplier Code of Conduct with suppliers to our own operations by assessing them against these requirements and where relevant, including them in our request for proposal and selection process. These requirements are also formalized in our contracts with suppliers. Please refer to the "Our supply chain" section to learn about our approach to managing our supply chains and how we source ingredients and materials, and produce products, with sustainability attributes.

- 480
PRINT DEVICES
reduced in offices across Cambodia, Guatemala, Hong Kong, Indonesia, Philippines, Sri Lanka, Thailand and Vietnam

In 2016, our procurement team continued its focus on paper reduction by[7]:

- Launching the Li & Fung Paper Free Hero challenge, a paper-use awareness campaign to educate our people about the impact of excessive paper use and encourage them to reduce paper consumption
- Removing over 440 printers from our offices in Hong Kong to encourage everyone to think before they print and reducing print devices from 84 to 48 in our offices across Cambodia, Guatemala, Indonesia, Philippines, Sri Lanka, Thailand and Vietnam. While every effort is being made to donate these printers to local charities, they will be responsibly disposed of as a last resort

*5 Over the years, we have reported year-on-year comparisons of environmental metrics for our Trading Network against our initial 2010 baseline. As reported in our Annual Report 2014, following the July 2014 spin-off of some of the business Li & Fung's entities in Li & Fung Trading and Distribution Networks to Global Brands, we established 2014 as the new baseline for our environmental reporting. With the strategic divestment in June 2016 of Li & Fung's Asia consumer and healthcare distribution business (refer to http://www.lifung.com/wpcontent/themes/lifung_new/ir/view.php?id=158913), the company's consumption for 2016 is disclosed with consumption attributed to the distribution business from January to June 2016 and without this consumption data so as to set a new baseline for future comparisons between consumption in 2016 and 2017.*

*6 Our facilities that manufacture beauty and personal care products are located in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge. With the strategic divestment in June 2016 of Li & Fung's Asia consumer and healthcare distribution business (refer to http://www.lifung.com/wp-content/themes/lifung_new/ir/view.php?id=158913), the manufacturing facility in Kuala Lumpur, which was previously part of Li & Fung's reporting scope, is no longer included. As noted above, consumption attributable to this facility from January to June 2016 is included in our disclosure.*

*7 As the majority of these initiatives were implemented in the fourth quarter of 2016, we expect to see positive results in a reduction of paper consumption in 2017 and beyond.*

- Continuing to share detailed paper consumption data to raise awareness and encourage people to reduce the quantity of paper they consume and to print in black and white instead of color
- Switching to thinner paper weights

We will continue to expand our efforts to reduce print devices and paper consumption, and to work with our suppliers to procure products with enhanced sustainability attributes.

## Improving Energy Efficiency and Reducing Emissions

Climate change is significantly impacting our world and the resilience of ecosystems. Changes in temperature and weather continue to affect species and biodiversity, natural and built environments, food production, resource availability and transportation, among other impacts. The physical and financial impact of this affects the sourcing and delivery of goods and services in our industry. We consider these risks in the procurement and consumption of resources, in material sourcing and product manufacturing and in the transportation of products to our customers.

We are committed to responsibly managing our footprint within our operations. Our consumption of energy and the composition of our GHG and air emissions globally are characterized by our trading business, offices and manufacturing facilities, and our logistics business operating vehicle fleets and DCs. For all of our facilities, systems are in place to monitor consumption and emissions. All facilities met relevant regulatory requirements in 2016.

We calculate our GHG emissions according to international standards as well as appropriate national and local guidelines[8] and emission factors. Scope 1 comprises emissions from the consumption of fuel by company-owned vehicles and boilers and of refrigerants by chillers. Scope 2 emissions arise from purchased electricity.

As reported in our 2015 Annual Report, we exceeded the 10% intensity reduction targets we set to achieve by end of 2016 for both our GHG emissions and electricity usage in 2015, against our 2014 baseline. In 2016 and against our 2015 results, the intensity of both our overall electricity consumption and GHG emissions reduced. Despite an increase in our vehicle fleet, which resulted in an increase in our Scope 1 emissions, these intensity reductions are attributable to our ongoing investment in efficient equipment, technologies, systems and vehicular fleets, consolidation of our offices and to the commitment of our people to make behavioral changes to conserve energy. Key initiatives going forward include our Logistics Network planning for the long-term roll out of hybrid and electric vehicles and increasing the use of marine transport operators that provide more environmentally-responsible fleets with reduced air pollution, GHG emissions and waste generation.

*8 Standards and guidelines adopted include the International Energy Agency's $CO_2$ Emission from Fuel Combustion, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, the Defra Voluntary Reporting Guidelines and the Hong Kong Government's Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings.*

Highlights of key initiatives to reduce electricity and GHG emissions are below.

- Progressively retrofitting existing lighting with LED throughout our operations. In 2016, our Jakarta facility completed its conversion to LED lighting and our Bangkok facility converted its outdoor lights to LED
- Deploying and optimizing the performance of energy-efficient building, air conditioning and production systems and equipment
- Consolidating equipment and installing energy-efficient blade servers and virtual machines in our server rooms, as well as conserving energy by improving airflow and enclosing areas that have high-intensity cooling requirements
- Using video conference facilities, IP video phones, VidyoDesktop for online calls and Webex to reduce overall travel
- Upgrading heating and cooling systems to improve efficiency and adopt cleaner energy sources, ranging from solar thermal and photovoltaics at our Bangkok facility to boilers[9] at our manufacturing facilities consuming natural gas and or liquid petroleum gas
- Operating an electric delivery van in Hong Kong with plans to expand the fleet
- Operating forklift vehicles that have rechargeable electric batteries, and safely reusing fit-for-purpose parts from retired forklifts for vehicles in operation
- Using handheld monitoring devices with rechargeable batteries that are linked to centralized databases to monitor inventory and thereby reduce paper consumption and enhance the efficiency of warehouse operations

Visit our website for more examples and details on our 2016 electricity consumption and GHG emission metrics, and the composition of our Scope 1 and 2 GHG emissions.

## Efficiently Using Resources and Reducing Waste

We are committed to using resources wisely and efficiently and reducing waste generation. We have been progressively implementing water-efficiency measures throughout our operations, including the installation of water-efficient faucets, fixtures and fittings in our offices and equipment in our facilities, capturing rainwater for landscape irrigation to reduce water consumption and encouraging behavioral change in our people.

9 *Four of our five manufacturing facilities operate boilers with three of them consuming natural gas and the other liquid petroleum gas (LPG).*

In 2016, our absolute water consumption reduced, which complements our 2015 achievement of absolute and intensity reductions in water consumption. Our water intensity per person increased by 3%, demonstrating that we need to reinforce and further support our people to make behavioral changes to conserve water. Our manufacturing facilities have systems in place to reduce consumption and also undertake measures to reduce waste generation in the production process, to treat and monitor wastewater discharges and to properly handle, store and dispose of chemical and solid materials and waste. In 2016, all facilities met relevant regulatory requirements.

Our offices use paper that is certified by a Forest Stewardship Council™ (FSC™) accredited certification body to be FSC Mix Paper from responsible sources or has Programme for the Endorsement of Forest Certification (PEFC). We also provide products that comprise materials, including wood, paper, cardboard and/or packaging that are verified to be from FSC[10] or PEFC certified sources. As noted, our procurement team implemented several initiatives to reduce paper consumption. Recognizing that our paper consumption intensity increased by 5% in 2016, we expect that positive results from our printer consolidation effort will be seen in 2017 and beyond. We will also be enhancing our overall paper reduction efforts going forward.

FSC FORESTS FOR ALL FOREVER™

Each of our offices and facilities seek to minimize waste generation and maximize reuse and recycling in their local markets by collecting used paper, printer/copier toners, packaging, aluminum cans, plastic bottles and other materials that can be recycled locally. In Hong Kong, recyclables are collected by a local company and a social enterprise, we maintain 'Class of Excellence' certifications under the Hong Kong government's Wastewi$e scheme for offices, and in 2016 our DC was recognized with a Silver Award for recycling and as a Friend of the EcoPark Plastic Resource Recycling Center.

At our manufacturing facilities, measures are adopted to better manage materials and minimize waste generation, ranging from flexible processing lines that adapt for multiple product runs to lean manufacturing projects to reduce consumption and waste, to the proper handling, storage and disposal of materials and chemicals to meet legal and REACH[11] requirements. Furthermore, our manufacturing and logistics facilities reuse and recycle pallets made from plastic and wood-based materials, recycle waste materials and minimize packaging for the internal storage and delivery of finished goods.

Over the course of our current and previous Three-Year Plans, we have achieved reductions in our consumption of resources and an overall intensity reduction in GHG emissions. Given our overall results, we will review our operations and identify how we can further improve our environmental performance over our next Three-Year Plan.

Visit our website for details on our 2016 water and paper consumption metrics.

*10 FSC license numbers FSC-C113132, FSC-C114681, FSC-C116575 and FSC-C129309.*

*11 European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals.*

# Information for investors

## Listing Information

**Listing:** The Stock Exchange of Hong Kong Limited

**Stock Code:** 494

**Ticker Symbol**

Reuters: 0494.HK

Bloomberg: 494 HK Equity

## Index Recognition

Hang Seng High Dividend Yield Index

MSCI Index Series

MSCI Global Sustainability Indexes

FTSE4Good Index Series

Hang Seng Corporate Sustainability Index Series

STOXX® Global ESG Leaders

## Key Dates

**25 Aug 2016** Announcement of the 2016 Interim Results

**20 Sep 2016** Payment of 2016 Interim Dividend

**29 Mar 2017** Announcement of the 2016 Final Results

**25 May 2017** Record Date for the 2017 Annual General Meeting

**1 Jun 2017** Annual General Meeting

**5 Jun 2017** Dividend Ex-entitlement for Shares

**7-8 Jun 2017** (both days inclusive) Closure of the Register of Shareholders

**14 Jun 2017** Proposed Payment of 2016 Final Dividend

## Registrar & Transfer Offices

**Principal**

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

**Hong Kong Branch**

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong
Telephone: (852) 2980 1333
lifung-ecom@hk.tricorglobal.com

## Share Information

**Board lot size:** 2,000 Shares

Shares outstanding as at 31 December 2016
8,415,447,306 Shares

Market capitalization as at 31 December 2016
HK$28,696,675,313

Basic earnings per Share for 2016

| | |
|---|---|
| Interim | 0.87 US cents |
| Full Year | 2.67 US cents |

Dividend per Share for 2016

Interim 11 HK cents | Final 12 HK cents

Total 23 HK cents

## Enquiries

Institutional investors and securities analysts:
**Investor Relations** | ir@lifung.com

Media and potential business partners:
**Corporate Communications** | media@lifung.com

Shareholders addressed to the Board:
**Company Secretariat** | secretariat@lifung.com

**Li & Fung Limited**
11th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong
Telephone: (852) 2300 2300

## Websites

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

A Chinese version of this 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.

本報告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。如中英文版本有任何差異，請以英文版本為準。

# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

## Principal Activities, Analysis of Operations and Business Review

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

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

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group business, can be found in the preceding sections of this Report set out in pages 4 to 125. The preceding sections form part of this Report.

The Directors recognize the importance of sound environmental, social and governance ("ESG") practices to support the sustainable development of the Group's business today and for the long term. The Board and its committees oversee the Group's management of ESG performance and the implementation of its sustainability strategy. The Risk Management and Sustainability Committee ("RMSC") is particularly focused on reviewing and advising on the Group's ESG risk management and performance. Details regarding the roles, responsibilities and actions of the RMSC are provided on page 46 of this Report, and its terms of reference is available on our website.

The Group maintains appropriate systems to manage risk and to meet relevant legal requirements and standards related to corporate governance, business operations, employment, health and safety, the environment and the supply chain. With regard to the environment and as part of its sustainability strategy, the Group implements initiatives to manage its footprint and address climate change, monitor performance and adopt improvement actions. Details on policies adopted and performance achieved are outlined in "Our footprint" on pages 116 to 125 and demonstrate the Group's continued efforts to reduce the environmental impact of its operations.

Engaging stakeholders is an ongoing and important part of the Group achieving its business objectives. The Directors review the Group's approach to engaging with its key stakeholders who include shareholders and investors, customers, suppliers and business partners, employees, governments, industry and non-governmental organizations and the media. Regular communication and engagement with these stakeholders enables the Group to manage risk and address evolving requirements and expectations. Examples of how the Group engages with its stakeholders are provided throughout this Report and specifically on pages 74 to 119.

## Results and Appropriations

The results of the Group for the year are set out in the "Consolidated Profit and Loss Account" on page 147.

The Directors declared an interim dividend of HK$0.11 (equivalent to US$0.014) per ordinary share, totalling US$119,291,000 which was paid on 20 September 2016.

The Directors recommend the payment of a final dividend of HK$0.12 (equivalent to US$0.015) per share, totalling US$130,136,000.

## Distributable Reserves

At 31 December 2016, the reserves of the Company available for distribution as dividends amounted to US$3,070,087,000, comprising retained earnings of US$2,095,898,000 and contribution surplus of US$974,189,000 arising from: (i) the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited; (ii) the issuance of shares for the acquisition of Colby Group Holdings Limited; (iii) the transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000 *(Note 38(a))*.

Under the Companies Act 1981 of Bermuda (as amended), the contribution 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$823,000.

## 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 2016 and for the previous nine financial years are set out in the "Ten-Year Financial Summary" section on pages 236 to 237.

## Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

## 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.

## Long-term Incentive Schemes

### (A) Share Option Schemes

2003 OPTION SCHEME

Pursuant to the terms of the 2003 Option Scheme, the 2003 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 2003 Option Scheme expired on 11 May 2013 and no further options could thereafter be granted under the 2003 Option Scheme. However, all remaining provisions remain in full force and effect to govern the exercise of all the Share Options granted under the 2003 Option Scheme prior to its expiration.

As at 31 December 2016, there were Share Options relating to 14,000,000 Shares granted by the Company representing 0.17% of the issued Shares as at the date of this Report pursuant to the 2003 Option Scheme which were valid and outstanding.

2014 OPTION SCHEME

The 2014 Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014. As at 31 December 2016, there were Share Options relating to 86,768,000 Shares granted by the Company representing 1.03% of the issued Shares as at the date of this Report pursuant to the 2014 Option Scheme which were valid and outstanding.

Details of the Share Options granted under the 2003 Option Scheme and the 2014 Option Scheme that remain outstanding as at 31 December 2016 are as follows:

| | | | Number of Share Options | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | Exercise Price HK$ | Grantees | As at 1/1/2016 | Granted | Lapsed | As at 31/12/2016 | Exercisable period |
| 2003 Option Scheme | | | | | | | |
| 22/12/2011 | 12.12[1] | Spencer Theodore Fung | 8,000,000 | – | (1,000,000) | 7,000,000 | Exercisable in eight equal tranches during the period from 1/5/2014 to 30/4/2023 with each tranche having an exercisable period of two years |
| | | Marc Robert Compagnon | 8,000,000 | – | (1,000,000) | 7,000,000 | |
| 2014 Option Scheme | | | | | | | |
| 21/5/2015 | 7.49[2] | William Fung Kwok Lun | 7,509,000 | – | – | 7,509,000 | Exercisable in three tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years |
| | | Spencer Theodore Fung | 4,569,000 | – | – | 4,569,000 | |
| | | Marc Robert Compagnon | 3,945,000 | – | – | 3,945,000 | |
| | | Continuous Contract Employees | 68,648,000 | – | – | 68,648,000 | |
| | | Other Participants | 3,624,000 | – | (3,020,000) | 604,000 | |
| 16/11/2015 | 5.81[3] | Continuous Contract Employees | 889,000 | – | – | 889,000 | Exercisable in two tranches during the period from 1/1/2017 to 31/12/2019 with each tranche having an exercisable period of two years |
| 19/5/2016 | 4.27[4] | Continuous Contract Employees | – | 604,000 | – | 604,000 | Exercisable during the period from 1/1/2018 to 31/12/2019 |
| | | Total | 105,184,000 | 604,000 | (5,020,000) | 100,768,000 | |

**NOTES:**

*(1) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK$14.50 to HK$12.12 with effect from 31 August 2014.*

*(2) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 20 May 2015 was HK$7.29.*

*(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 13 November 2015 was HK$5.58.*

*(4) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 18 May 2016 was HK$4.25.*

*(5) The above Share Options granted are recognized as expenses in the financial statements in accordance with the Company's accounting policy as set out in Note 1 to the financial statements. Other details of Share Options granted by the Company are set out in Note 24 to the financial statements.*

The major terms of the 2003 Option Scheme and the 2014 Option Scheme (collectively, the "Share Option Schemes") are summarized as follows:

(i) Purpose
The purpose of the Share Option Schemes is to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to the selected qualifying participants; and to promote the long-term financial success of the Group 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, advisor, customer, contractor, business ally or joint venture partner of the Group or any affiliate under the Share Option Schemes.

(iii) Maximum Number of Shares
The total number of Shares which may be issued upon exercise of all options to be granted under the 2003 Option Scheme and the 2014 Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the respective date of approval of each of the Share Option Schemes. Following the expiration of the 2003 Option Scheme, no further share options can be granted under the 2003 Option Scheme.

The number of Shares available for issue under the 2014 Option Scheme is 749,271,830 Shares, representing 8.90% of the issued Shares as at the date of this Report.

Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes 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 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 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 Share Option Schemes do 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 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 Share Option Schemes

The 2003 Option Scheme expired on 11 May 2013 and all outstanding Share Options granted under the 2003 Option Scheme and yet to be exercised shall remain valid.

Under the 2014 Option Scheme, the Board is entitled at any time within 10 years between 15 May 2014 and 14 May 2024 to offer the grant of an option to any qualifying participants.

## (B) Share Award Scheme

The Share Award Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015.

During the year, a total of 1,357,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 22,000 Award Shares were awarded to a connected person. The 22,000 Award Shares were purchased from the open market. The balance of 1,335,000 Award Shares granted to non-connected persons were satisfied by the Award Shares which had not been vested and/or been forfeited in accordance with the terms of the Share Award Scheme.

During the year, a total of 5,070,600 Award Shares were unvested and/or forfeited and out of which, 1,335,000 Award Shares were applied to the awards to non-connected persons. Another 4,080,918 Shares were transferred to the trustee during the year. As at 31 December 2016, a total of 9,159,518 Shares were held by the trustee to be applied towards future awards.

As at 31 December 2016, 193,185,549 Shares are available for grant of awards in the future under the Share Award Scheme, representing approximately 2.30% of the Shares in issue.

The movement in the Award Shares under the Share Award Scheme during the year are as follows:

| | | Number of Award Shares | | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | Grantees | As at 1/1/2016 | Granted | Vested | Unvested/ Forfeited* | As at 31/12/2016 | Vesting Date |
| 21/5/2015 | Spencer Theodore Fung | 720,000 | – | (180,000) | – | 540,000 | To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019 |
| | Marc Robert Compagnon | 613,200 | – | (153,400) | – | 459,800 | |
| | Connected Persons other than Directors | 5,453,600 | – | (1,362,400) | – | 4,091,200 | |
| | Non-connected Persons | 47,327,400 | – | (10,227,000) | (4,936,600) | 32,163,800 | |
| 16/11/2015 | Non-connected Persons | 1,035,000 | – | (90,400) | (100,000) | 844,600 | To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019 |
| 19/5/2016 | Connected Persons other than Directors | – | 22,000 | – | – | 22,000 | To be vested in four tranches with the vesting date on 31 December of each year from 2016 to 2019 |
| | Non-connected Persons | – | 1,138,000 | (10,000) | (34,000) | 1,094,000 | |
| 14/11/2016 | Non-connected Persons | – | 197,000 | – | – | 197,000 | To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019 |
| | Total | 55,149,200 | 1,357,000 | (12,023,200) | (5,070,600) | 39,412,400 | |

* *Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme are held by the trustee to be applied towards future awards in accordance with the provisions of the Share Award Scheme. During the year, 1,335,000 Award Shares had been applied from the 5,070,600 Award Shares which were unvested and/or forfeited.*

The major terms of the Share Award Scheme are summarized as follows:

(i) Purpose
The purpose of the Share Award Scheme is (i) to align the interests of eligible persons with those of the Group through the ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares; and (ii) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

(ii) Eligible Persons
Any individual, being an employee, director, officer, consultant or advisor of any member of the Group or any affiliate (as defined in the Share Award Scheme) who the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

(iii) Awards
An award granted by the Board to eligible persons which may vest in the form of Award Shares or the actual price of the Award Shares which are sold on the vesting of an award pursuant to the Share Award Scheme.

(iv) Granting of Awards
The Board may, from time to time, grant awards to any eligible person who the Board considers to have contributed or will contribute to the Group.

Each grant of an award to any Director or connected person of the Company shall be subject to the prior approval of the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is a proposed recipient of the grant of an award). The allotment and issue of new Shares in satisfaction of awards granted to connected persons of the Company (whether connected at the Company or subsidiary level), which constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, will be subject to independent Shareholders' approval requirements under Chapter 14A of the Listing Rules notwithstanding the mandate was granted to the Directors at the 2015 annual general meeting of the Company to allot and issue up to 3% of the total number of issued Shares as at 21 May 2015.

(v) Maximum Number of Shares to be Awarded
The maximum number of Shares, whether they are new Shares to be allotted and issued by the Company, or Award Shares that are not vested and/or are forfeited and held by the independent trustee to be applied towards future awards, or existing shares to be purchased on the market by the independent trustee, underlying all grants made pursuant to the Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Share Award Scheme) shall not exceed 3% (i.e. 250,811,949 Shares) of the total number of issued Shares as at the Adoption Date. As at the date of this Report, 193,185,549 Award Shares are available for the furthering grant of awards under the Share Award Scheme, representing approximately 2.30% of the Shares in issue.

The above limit can be renewed or refreshed subject to approval of Shareholders within 10 years from the Adoption Date.

(vi) Limited for Each Participant
Under the Share Award Scheme, there is no specified limit on the maximum number of Award Shares which may be granted to a single eligible person but unvested under the Share Award Scheme.

(vii) Termination
Subject to any early termination as may be determined by the Board, the Share Award Scheme will be valid and effective for 10 years commencing on the Adoption Date.

## Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2016 are set out in *Note 41* to the financial statements.

## Associated Companies

Details of the Company's principal associated companies at 31 December 2016 are set out in *Note 41* to the financial statements.

## Joint Venture

Details of the Company's principal joint venture at 31 December 2016 are set out in *Note 41* to the financial statements.

## Major Customers and Suppliers

During 2016 and 2015, the Group purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the largest customer and the five largest customers combined for the Group were 13% (2015: 13%) and 36% (2015: 36%), respectively.

Victor Fung Kwok King, William Fung Kwok Lun and Spencer Theodore Fung were each deemed to have more than 5% interest in Global Brands Group, which is one of the Group's five largest customers.

Save as disclosed above, during 2016, none of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers.

## Connected Transactions and Continuing Connected Transactions

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

(i) On 30 December 2016, a subsidiary of the Company disposed of the entire issued share capital of a property company which solely owns the property to a subsidiary of FH (1937) for a cash consideration of approximately US$4,375,000. The Group also entered into a leaseback agreement at an annual rental of approximately US$288,000 for a term up to 30 December 2019.

During the year, the Group also engaged in certain continuing connected transactions as set out below, which were subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirement.

(i) The Company entered into a distribution and sale of goods agreement with FH (1937) and its associates on 5 December 2014 for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the distribution and sale of goods agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US$20,090,000 for the year ended 31 December 2016 which did not exceed the annual cap for 2016 of US$120 million.

(ii) Pursuant to the master agreement for the leasing of properties (the "Existing Master Lease Agreement") that the Company entered into with FH (1937) on 6 December 2013, the Group leased certain properties from FH (1937) and its associates for a term of three years from 1 January 2014 to 31 December 2016. 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 14 November 2016 for the properties leasing or sub-leasing and/or licensing arrangements by the Group from/to FH(1937) and its associates for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. The transactions contemplated under the Existing Master Lease Agreement and the Renewal Master Lease Agreement for the leasing of properties constituted continuing connected transactions of the Company under the Main Board Listing Rules. In respect of the Existing Master Lease Agreement, the Group paid rental expenses of US$26,242,000 for the year ended 31 December 2016 which did not exceed the annual cap for 2016 of US$55 million.

(iii) On 24 June 2014, a subsidiary of the Company entered into a buying agency agreement with a subsidiary of Global Brands, an associate of FH (1937), for the sourcing and supply chain management services for a term of three years from the listing date of Global Brands (the "Existing Buying Agency Agreement"). In view of the expiry of the Existing Buying Agency Agreement, the Company has entered into the Amended and Restated Buying Agency Agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term from 9 July 2017 to 31 March 2020. Global Brands Group is a connected person of the Company after its spin-off from the Group on 8 July 2014 and the transactions contemplated under the Existing Buying Agency Agreement and the Amended and Restated Buying Agency Agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the year ended 31 December 2016, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$1,412,770,000. The aggregate commission payable to the Group under the Existing Buying Agency Agreement did not exceed the annual cap for 2016 of US$164 million and 7% of the FOB price on all products and components sourced through the Group.

(iv) On 24 June 2014, the Company entered into a master property agreement (the "Existing Master Property Agreement") with Global Brands, for the sub-lease and licensing of offices to and from Global Brands Group from the listing date of Global Brands to 31 December 2016. In view of the expiry of the Existing Master Property Agreement, the Company has entered the Renewal Master Lease Agreement as aforementioned in (ii). The transactions contemplated under the Existing Master Property Agreement and the Renewal Master Lease Agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the year ended 31 December 2016, aggregate rental and license fees paid to and from between the Group and the Global Brands Group was approximately US$4,309,000, which did not exceed the annual cap for 2016 of US$16 million.

(v) On 20 August 2015, the Company entered into a master agreement with FH (1937) for provision of logistics related services to FH (1937) and its associates for a term of three years commencing from 1 January 2015 and ending on 31 December 2017. The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded logistics related services income of US$15,530,000 for the year ended 31 December 2016 which did not exceed the annual cap for 2016 of US$30 million.

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 favorable 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. Proper internal control procedures are in place to identify, approve and record all these transactions.

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 (Revised) "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.56. 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's monthly pension cost contribution is 3% of 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 requirements.

In China, the Group participates in defined contribution retirement schemes operated by the local authorities for employees. Contributions to these schemes are pursuant to the statutory requirements.

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

Contributions to the various arrangements of 2016 were:

| | US$'000 |
|---|---|
| Contributions to the MPF Scheme | 5,962 |
| Contributions forfeited by employees | (2,019) |
| Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan | 1,882 |
| Contributions pursuant to the statutory requirements in Korea | 1,147 |
| Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand | 2,486 |
| Contributions pursuant to statutory requirements in China | 40,443 |
| Contributions pursuant to local requirements in other overseas regions | 15,861 |
| | 65,762 |

## 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*

Martin Tang Yue Nien*

Margaret Leung Ko May Yee*

**Executive Directors:**

William Fung Kwok Lun *(Group Chairman)*

Spencer Theodore Fung *(Group Chief Executive Officer)*

Marc Robert Compagnon

* *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.

William Fung Kwok Lun, Martin Tang Yue Nien and Marc Robert Compagnon will retire by rotation at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election.

At the 2016 annual general meeting of the Company held on 19 May 2016, Paul Edward Selway-Swift was re-elected for a term of around one year expiring at the conclusion of the 2017 annual general meeting of the Company to be held on 1 June 2017. He has indicated that he will not offer himself for re-election and will retire from the Board with effect from the conclusion of the 2017 annual general meeting.

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee, therefore, is of the view that they meet the independence guidelines set out in Rule 3.13 of the Listing Rules and 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 "Our Board and management team" section on pages 62 to 73.

## Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year. The Company has maintained liability insurance to provide appropriate cover for the directors of the Company and its subsidiaries.

## Directors' Service Contracts

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

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' Material Interests in Transactions, Arrangements and Contracts

No transactions, arrangements and 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 save as disclosed under the "Connected Transactions and Continuing Connected Transactions" section stated above and *Note 34* "Related Party Transactions" to the financial statements.

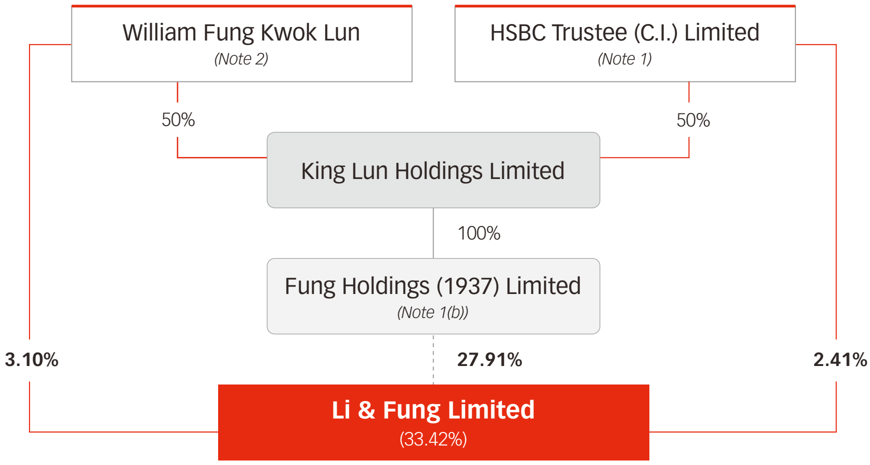
## Directors' Interests

As at 31 December 2016, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

### (A) Long Positions in Shares, Underlying Shares and Debentures of the Company

| | Number of Shares | | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Personal Interest | Family Interest | Trust/ Corporate Interest | Equity Derivatives (Share Options) | Total | Percentage of Issued Share Capital |
| Victor Fung Kwok King | 2,814,444 | – | 2,551,966,180[1] | – | 2,554,780,624 | 30.35% |
| William Fung Kwok Lun | 177,120,260 | 108,800[2(a)] | 2,425,362,472[2(b)] | 7,509,000[7] | 2,610,100,532 | 31.01% |
| Spencer Theodore Fung | 1,678,000 | – | 2,552,506,180[1&3] | 11,569,000[7] | 2,565,753,180 | 30.48% |
| Marc Robert Compagnon | 1,130,200 | 14,000 | 12,749,580[4] | 10,945,000[7] | 24,838,780 | 0.29% |
| Paul Edward Selway-Swift | 36,000 | – | 16,000[5] | – | 52,000 | 0.00% |
| Martin Tang Yue Nien | 60,000 | – | 60,000[6] | – | 120,000 | 0.00% |

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




**NOTES:**

*As at 31 December 2016,*

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

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

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

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

*(b) Out of 2,425,362,472 Shares, 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. The balance of 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above.*

*(3) Out of 2,552,506,180 Shares, 540,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in Note (1) above.*

*(4) Out of 12,749,580 Shares, 459,800 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Marc Robert Compagnon.*

*(5) 16,000 Shares were held by a trust of which Paul Edward Selway-Swift is a beneficiary.*

*(6) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.*

*(7) 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 Option Schemes" section stated above.*

### (B) Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2016, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### (C) Share Options and Award Shares

The interests of the Directors and chief executives in the Share Options (being regarded as unlisted physically settled equity derivatives) and Award Shares are detailed in the "Long-term Incentive Schemes" section stated above.

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

## Substantial Shareholders' Interests

As at 31 December 2016, other than the interests of the Directors or chief executives of the Company as disclosed in the previous section, the following entities had interests in the Shares of the Company which are required 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** | | | |
| HSBC Trustee (C.I.) Limited | Trustee | 2,551,966,180[1] | 30.32% |
| King Lun Holdings Limited | Interest of controlled corporation | 2,348,953,872[2] | 27.91% |
| Commonwealth Bank of Australia | Interest of controlled corporation | 1,426,361,529 | 16.95% |
| The Capital Group Companies, Inc. | Interest of controlled corporation | 673,130,000 | 7.99% |

**NOTES:**

*As at 31 December 2016,*

*(1) Please refer to Note (1) under the "Directors' Interests" section stated above.*

*(2) 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 Victor Fung Kwok King and William Fung Kwok Lun are directors of King Lun, FH (1937) and Fung Distribution.*

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 2016.

## 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 "Our Board and management team" section on pages 62 to 73.

## 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 "Our commitment to good governance" section on pages 34 to 51.

## Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements 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 financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements 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 financial statements 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, 29 March 2017

# Independent auditor's report

pwc

羅兵咸永道

**To the Shareholders of Li & Fung Limited**
*(incorporated in Bermuda with limited liability)*

## Opinion

### What we have Audited

The consolidated financial statements of Li & Fung Limited (the "Company") and its subsidiaries (the "Group") are set out on pages 147 to 235, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of intangible assets including goodwill
- Valuation of contingent consideration payable for business acquisitions

| Key Audit Matter | How our Audit Addressed the Key Audit Matter |
|---|---|
| Impairment assessment of intangible assets including goodwill<br><br>Refer to *Notes 1.6*, *2(A)*, *2(B)* and *11* to the consolidated financial statements<br><br>Included on the balance sheet is an intangible assets balance of US$3,897 million as of 31 December 2016, which relates to goodwill of US$3,557 million, and system development, software, other license costs and other intangible assets of US$340 million which arose mainly from past acquisitions.<br><br>The Group is required to, at least annually, perform impairment assessments of goodwill and intangible assets that have an indefinite useful life. For intangible assets with useful lives, the Group is required to review these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives.<br><br>For the purpose of performing impairment assessments, all intangible assets including goodwill have been allocated to groups of cash generating units ("CGUs"). The recoverable amount of the underlying CGUs is supported by value-in-use calculations which are based on future discounted cash flows. Management concluded that the intangible assets including goodwill were not impaired as of 31 December 2016.<br><br>We focused on this area as the assessments made by management involved significant estimates and judgments, including sales growth rates, gross profit margin, net profit margin and perpetual growth rates used to estimate future cash flows and discount rates applied to these forecasted future cash flows of the underlying CGUs. These estimates and judgments may be affected by unexpected changes in future market or economic conditions or discount rates applied. | We understood, evaluated and validated management's key controls over the impairment assessment process.<br><br>We compared the methodology used (value-in-use calculations based on future discounted cash flows) by the Group to market practice.<br><br>We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved one-year financial budget and future forecasts. We also compared historical actual results to those budgeted to assess the quality of management's forecasts.<br><br>We also assessed the reasonableness of key assumptions used in the calculations, comprising sales growth rates, gross profit margin, net profit margin, perpetual growth rate and discount rates. When assessing these key assumptions, we discussed them with management to understand and evaluate management's basis for determining the assumptions, and compared them to external industry outlook reports and economic growth forecasts from a number of sources. We also engaged our valuation experts to assist us in assessing the reasonableness of the discount rates used by management by comparing the discount rates used to entities with similar risk profiles and market information.<br><br>We obtained and tested management's sensitivity analysis around the key assumptions, to ascertain that selected adverse changes to key assumptions, both individually and in aggregate, would not cause the carrying amount of intangible assets including goodwill to exceed the recoverable amount.<br><br>We evaluated management's assessment on whether any events or change in circumstances indicate there may be a change in the expected useful lives of intangible assets.<br><br>We found the Group's estimates and judgments used in the impairment assessment and review of useful lives of intangible assets to be supported by the available evidence. |

| Key Audit Matter | How our Audit Addressed the Key Audit Matter |
|---|---|
| Valuation of contingent consideration payable for business acquisitions<br><br>Refer to *Notes 2(D)*, *4*, *27*, *35(c)* and *37* to the consolidated financial statements<br><br>As at 31 December 2016, the Group had contingent consideration payables of US$162 million, which are due to be payable from 2017 to 2022.<br><br>The Group recognized consideration for acquisition at fair value (estimated at the date of acquisition) for each contingent consideration arrangement. These fair value measurements require management's estimation and significant judgment on post-acquisition performance of the acquired businesses and discount rates used.<br><br>Contingent consideration payables are remeasured at fair value at each reporting date, and may be affected by changes in the estimation of post-acquisition performance of the acquired businesses. Any resulting gain or loss is recognised in the consolidated profit and loss account. For the year ended 31 December 2016, no gain or loss was recognised in the consolidated profit and loss account.<br><br>We focused on this area as the assessment made by management involved significant estimates and judgments in relation to the post-acquisition performance of individual businesses and discount rates applied, which may be affected by unexpected changes in future market or economic conditions or significant events or circumstances related to the acquired businesses. | We understood, evaluated and validated management's key controls over the contingent consideration payable assessment process.<br><br>We checked the contingent consideration payable calculation prepared by management against the formula stated in the sales and purchase agreement for each of the acquired businesses.<br><br>We evaluated performance forecasts used in the contingent consideration payable calculation and tested the mathematical accuracy of the underlying calculation of consideration payable and agreed them to the financial projection prepared by management for the specific financial period stipulated by the sales and purchase agreement. We also analysed the key assumptions adopted by management with reference to their business plan and historical actual results to assess the quality of management's financial projection.<br><br>We compared the discount rates used by management against market information and internal data.<br><br>We found the Group's estimates and judgments used in the valuation of contingent consideration payables as at 31 December 2016 to be supported by the available evidence. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Woon Yin Michael.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 29 March 2017

# Financial statements



Notes to the financial statements

# Consolidated profit and loss account

For the year ended 31 December 2016

| | Note | 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|
| Turnover | 3 | **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 | 3 | **411,998** | 512,424 |
| Gain on remeasurement of contingent consideration payable | 4 | **–** | 116,973 |
| Amortization of other intangible assets | 4 | **(33,801)** | (34,412) |
| Gain on disposal of business | 4&30(c) | **7,871** | – |
| One-off reorganization costs | 4 | **(5,863)** | – |
| Operating profit | 4 | **380,205** | 594,985 |
| Interest income | | **16,324** | 9,761 |
| Interest expenses | 5 | | |
| 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 | 14&15 | **1,748** | 1,570 |
| Profit before taxation | | **306,781** | 506,775 |
| Taxation | 6 | **(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 |
| Earnings per share for profit attributable to the Shareholders of the Company during the year | 7 | | |
| – 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 |

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

| | 2016<br>US$'000 | 2015<br>US$'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.*

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

# Consolidated balance sheet

As at 31 December 2016

| | Note | As at 31 December 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Intangible assets | *11* | **3,896,973** | 4,266,863 |
| Property, plant and equipment | *12* | **221,550** | 241,626 |
| Prepaid premium for land leases | *13* | **127** | 1,942 |
| Associated companies | *14* | **11,005** | 10,070 |
| Joint venture | *15* | **760** | 313 |
| Available-for-sale financial assets | *16* | **4,164** | 3,854 |
| Other receivables, prepayments and deposits | *20* | **27,458** | 26,217 |
| Deferred tax assets | *29* | **16,419** | 36,527 |
| | | **4,178,456** | 4,587,412 |
| **Current Assets** | | | |
| Inventories | *17* | **277,841** | 566,002 |
| Due from related companies | *18* | **487,033** | 486,939 |
| Trade and bills receivable | *20* | **1,547,208** | 1,689,413 |
| Other receivables, prepayments and deposits | *20* | **206,610** | 256,818 |
| Derivative financial instruments | *19* | **10,697** | 4,272 |
| Cash and bank balances | *21* | **985,039** | 342,243 |
| | | **3,514,428** | 3,345,687 |
| **Current Liabilities** | | | |
| Due to related companies | *18* | **2,093** | 1,038 |
| Trade and bills payable | *22* | **2,083,875** | 2,464,785 |
| Accrued charges and sundry payables | *22* | **517,234** | 601,129 |
| Purchase consideration payable for acquisitions | *27* | **67,794** | 86,266 |
| Taxation | | **55,711** | 56,463 |
| Bank advances for discounted bills | *20* | **22,773** | 33,681 |
| Short-term bank loans | *23* | **29,180** | 95,819 |
| Current portion of long-term notes | *27* | **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 |

As at 31 December 2016

| | Note | As at 31 December 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|
| **Financed by:** | | | |
| Share capital | *24* | **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 | *26* | **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 | *27* | **753,458** | 1,253,823 |
| Purchase consideration payable for acquisitions | *27* | **93,742** | 156,236 |
| Other long-term liabilities | *27* | **32,589** | 116,420 |
| Post-employment benefit obligations | *28* | **22,517** | 21,909 |
| Deferred tax liabilities | *29* | **28,951** | 35,364 |
| | | **931,257** | 1,583,752 |
| | | **4,414,405** | 4,593,918 |

**William Fung Kwok Lun**
*Group Chairman*

**Spencer Theodore Fung**
*Group Chief Executive Officer*

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 31 December 2016

| | Attributable to Shareholders of the Company | | | | | Holders of Perpetual Capital Securities | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | Share Capital US$'000 *(Note 24)* | Share Premium US$'000 | Other Reserves US$'000 *(Note 25)* | Retained Earnings US$'000 | Total US$'000 | US$'000 *(Note 26)* | US$'000 | US$'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 |

| | Attributable to Shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital US$'000 *(Note 24)* | Share Premium US$'000 | Other Reserves US$'000 *(Note 25)* | Retained Earnings US$'000 | Total US$'000 | Holders of Perpetual Capital Securities US$'000 *(Note 26)* | 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 |

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

# Consolidated cash flow statement

For the year ended 31 December 2016

| | Note | 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net cash inflow generated from operations | *30(a)* | **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 | *14* | **835** | 1,436 |
| Investing in a joint venture | *15* | **(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 cost | | **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 | *30(b)* | **(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 | *21* | **985,039** | 342,243 |

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

# Notes to the financial statements

## 1 Basis of Preparation and Principal Accounting Policies

The basis of preparation and principal accounting policies applied in the preparation of these consolidated financial statements 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 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 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 financial statements, are disclosed in *Note 2*.

#### (A) NEW STANDARDS AND 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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.1 Basis of Preparation (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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.1 Basis of Preparation (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)

*HKFRS 9, 'Financial instruments'* (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.

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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.1 Basis of Preparation (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)

*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, see *note 32*. 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.

## 1.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2016.

(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 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 recognizes 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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.2 Consolidation (continued)

### (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 recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes 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 VENTURE

Under the equity method of accounting, interests in joint venture are initially recognized at cost and adjusted thereafter to recognize 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 recognize 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 venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 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 financial statements 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 financial statements are presented in US dollar, which is the Company's functional and presentation currency.

### (B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or revaluation where items are remeasured. 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 rate on 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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.4 Foreign Currency Translation (continued)

### (C) GROUP COMPANIES (continued)

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.

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 is re-attributed to non-controlling interests and is 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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.5 Property, Plant and Equipment (continued)

### (C) DEPRECIATION AND IMPAIRMENT

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

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

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

### (D) GAIN OR LOSS ON DISPOSAL

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

## 1.6 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 venture is included in interests in associated accompanies and joint venture and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.6 Intangible Assets (continued)

### (B) SYSTEM DEVELOPMENT, SOFTWARE AND OTHER LICENSE 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.

Brand licenses are license contracts entered into with the brandholders 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.

### (C) OTHER INTANGIBLE ASSETS

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.

## 1.7 Impairment of Investments in Subsidiaries, Associated Companies, Joint Venture 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 venture is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or joint venture 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 Basis of Preparation and Principal Accounting Policies (continued)

## 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 "amounts due from related companies" in the balance sheet *(Notes 1.11* and *1.13)*.

*(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 income 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.

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.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.9 Impairment of Financial Assets (continued)

### (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 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 realizable 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 realizable 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 assets. 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 reorganization, 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.

## 1.12 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 Basis of Preparation and Principal Accounting Policies (continued)

## 1.13 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

## 1.14 Borrowings

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

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

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

## 1.15 Current and Deferred Tax

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

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

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

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

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

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 Basis of Preparation and Principal Accounting Policies (continued)

## 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. In countries where there is no deep market in such bonds, the market yields on government bonds are used. 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 consolidated profit and loss account.

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. In countries where there is no deep market in such bonds, the market yields on government bonds are used.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.16 Employee Benefits (continued)

### (D) SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the Share Options/Award Shares 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/share awards 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 Share Options/Award shares 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 Share Options/Award Shares 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.

### (E) SHARE-BASED PAYMENT TRANSACTIONS AMONG GROUP ENTITIES

The grant by the Company of Share Options/Award Shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity's financial statements.

## 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 financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

### 1.19 Total Margin

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

### 1.20 Core Operating Profit

Core operating profit is the profit before taxation generated from the Group's trading and logistics businesses excluding 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 gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items.

# 1 Basis of Preparation and Principal Accounting Policies (continued)

## 1.21 Revenue Recognition

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

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

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

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

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 Basis of Preparation and Principal Accounting Policies (continued)

## 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 recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

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

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

### (A) CASH FLOW HEDGE

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

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

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 which is 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 Basis of Preparation and Principal Accounting Policies (continued)

## 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. Trade payables 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 financial statements in the period in which the dividends are approved by the Company's shareholders.

## 1.27 Treasury Shares

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

## 1.28 Financial Guarantee Contract

Financial guarantees are initially 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 the experience of similar transactions and history of past losses, supplemented by the judgment 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 11)*.

## 2 Critical Accounting Estimates and Judgments (continued)

### (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 remeasured 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).

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 business.

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 would be US$16 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 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 *(see Note 1.20)*. 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.

## 3 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 |

## 3 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 |

## 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 | |
|---|---|---|---|---|
| | **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.

## 4 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 *(Note)** | **–** | 116,973 |
| Gain on disposal of business *(Note 30(c))** | **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 *(Note 11)* | **11,517** | 14,538 |
| Amortization of other intangible assets *(Note 11)** | **33,801** | 34,412 |
| Amortization of prepaid premium for land leases *(Note 13)* | **65** | 119 |
| Depreciation of property, plant and equipment *(Note 12)* | **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 *(Note 20)* | **53,489** | 21,582 |
| Staff costs including directors' emoluments *(Note 9)* | **970,325** | 1,024,684 |
| Net exchange (gains)/losses | **(2,366)** | 5,082 |

* *Excluded from the core operating profit*

**NOTE:**
*The Group remeasured contingent consideration payable for all acquisitions with outstanding contingent consideration arrangements based on the market outlook and their prevailing business plans and projections. There was no gain or loss from remeasurement of contingent consideration for 2016. In 2015, a gain of approximately US$117 million was recognized. Among the total remeasurement gain, approximately US$87 million was adjustment to earn-up consideration. The revised provision for performance-based contingent considerations is 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:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Audit services | **3,763** | 4,491 |
| Non-audit services | | |
| – due diligence reviews on acquisitions | **57** | – |
| – taxation services | **2,605** | 2,630 |
| – others | **537** | 1,534 |
| Total remuneration to auditors charged to consolidated profit and loss account | **6,962** | 8,655 |

**NOTE:**
*Of the above audit and non-audit services fees, US$3,754,000 (2015: US$4,417,000) and US$3,199,000 (2015: US$4,164,000), respectively are payable to the Company's auditor.*

## 5 Interest Expenses

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Non-cash interest expenses on purchase consideration payable for acquisitions and long-term notes | **3,971** | 6,662 |
| Cash interest on bank loans and overdrafts, long-term notes | **87,525** | 92,879 |
| | **91,496** | 99,541 |

## 6 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 *(Note 29)* | **(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.*

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:

| | 2016 % | 2015 % |
|---|---|---|
| Calculated at a taxation rate of | **16.5** | 16.5 |
| Effect of different taxation rates in other countries | **(8.2)** | (4.5) |
| Expenses net of income/(income net of expenses) not subject to taxation | **7.7** | (1.4) |
| (Over)/under provision in prior years | **(0.5)** | 0.6 |
| Utilization of previously unrecognized tax losses | **(0.6)** | (0.1) |
| Unrecognized tax losses | **0.9** | 0.3 |
| Effective tax rate | **15.8** | 11.4 |

## 7 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 the Share Options and vesting of Award Shares.

## 8 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.*

## 9 Staff Costs including Directors' Emoluments

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Salaries and bonuses | **841,232** | 894,635 |
| Staff benefits | **39,862** | 41,064 |
| Pension costs of defined contribution plans *(Note (a))* | **63,601** | 61,859 |
| Employee share option and share award expenses | **22,664** | 23,583 |
| Pension costs of defined benefit plans *(Note 28(ii))* | **2,161** | 2,549 |
| Long-service payments | **805** | 994 |
| | **970,325** | 1,024,684 |

**NOTES:**

(a) *Forfeited contributions totalling US$2,019,000 (2015: US$1,745,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.*

(b) *Staff costs of US$668,601,000 (2015: US$713,871,000), US$152,604,000 (2015: US$161,985,000) and US$149,120,000 (2015: US$148,828,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.*

# 10 Directors' and Senior Management's Emoluments

## (a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2015: three) Directors whose accrued emoluments are reflected in the analysis shown in *Note 39*. The emoluments payable to the remaining two individuals on accrual basis (2015: two individuals) during the year are as follows:

| | **2016** **US$'000** | 2015 US$'000 |
|---|---|---|
| Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind | **1,896** | 2,216 |
| Discretionary bonuses | **900** | 782 |
| Contributions to pension scheme | **4** | 13 |
| | **2,800** | 3,011 |

| **Emolument Bands** | **Number of individuals** **2016** | 2015 |
|---|---|---|
| US$1,282,001 – US$1,346,000 (HK$10,000,001 – HK$10,500,000) | **–** | 1 |
| US$1,346,001 – US$1,410,000 (HK$10,500,001 – HK$11,000,000) | **1** | – |
| US$1,410,001 – US$1,474,000 (HK$11,000,001 – HK$11,500,000) | **1** | – |
| US$1,667,001 – US$1,731,000 (HK$13,000,001 – HK$13,500,000) | **–** | 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.

## (b) Senior Management's Emoluments

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

| **Emolument Bands** | **Number of individuals** **2016** | 2015 |
|---|---|---|
| Below US$1,000,000 | **3** | 2 |
| US$1,000,001 – US$1,500,000 | **7** | 7 |
| US$1,500,001 – US$2,000,000 | **–** | 1 |

## 11 Intangible Assets

| | Goodwill US$'000 | Other Intangible Assets: System Development, Software and Other License Costs US$'000 | Other Intangible Assets: Buying Agency Agreements US$'000 | Other Intangible Assets: Customer Relationships US$'000 | Other Intangible Assets: Patents, Trademarks and Brandnames US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | | | |
| Cost | 3,877,811 | 76,508 | 67,867 | 400,124 | 49,211 | 12,521 | 4,484,042 |
| Accumulated amortization | – | (53,992) | (25,306) | (123,846) | (12,420) | (1,615) | (217,179) |
| **Net Book Amount** | 3,877,811 | 22,516 | 42,561 | 276,278 | 36,791 | 10,906 | 4,266,863 |
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book amount | 3,877,811 | 22,516 | 42,561 | 276,278 | 36,791 | 10,906 | 4,266,863 |
| Exchange differences | (103,200) | (867) | – | (7,833) | (2,849) | – | (114,749) |
| Acquisition of business | 5,829 | – | – | 890 | – | – | 6,719 |
| Additions | – | 13,214 | – | – | – | – | 13,214 |
| Disposal of business | (223,200) | (457) | – | (5,641) | – | (458) | (229,756) |
| Disposals | – | – | – | – | – | – | – |
| Amortization | – | (11,517) | (3,875) | (26,043) | (3,099) | (784) | (45,318) |
| **Closing Net Book Amount** | 3,557,240 | 22,889 | 38,686 | 237,651 | 30,843 | 9,664 | 3,896,973 |
| **At 31 December 2016** | | | | | | | |
| Cost | 3,557,240 | 73,949 | 67,867 | 381,183 | 45,305 | 12,063 | 4,137,607 |
| Accumulated amortization | – | (51,060) | (29,181) | (143,532) | (14,462) | (2,399) | (240,634) |
| **Net Book Amount** | 3,557,240 | 22,889 | 38,686 | 237,651 | 30,843 | 9,664 | 3,896,973 |

## 11 Intangible Assets (continued)

| | Goodwill US$'000 | System Development, Software and Other License Costs US$'000 | Other Intangible Assets: Buying Agency Agreements US$'000 | Other Intangible Assets: Customer Relationships US$'000 | Other Intangible Assets: Patents, Trademarks and Brandnames US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | | | | | | | |
| Cost | 3,910,770 | 86,858 | 67,867 | 403,327 | 50,641 | 12,583 | 4,532,046 |
| Accumulated amortization | – | (53,019) | (21,431) | (98,154) | (9,224) | (1,135) | (182,963) |
| **Net Book Amount** | 3,910,770 | 33,839 | 46,436 | 305,173 | 41,417 | 11,448 | 4,349,083 |
| **Year ended 31 December 2015** | | | | | | | |
| Opening net book amount | 3,910,770 | 33,839 | 46,436 | 305,173 | 41,417 | 11,448 | 4,349,083 |
| Exchange differences | (33,518) | (1,813) | – | (2,281) | (1,179) | 89 | (38,702) |
| Adjustments to purchase consideration payable for acquisitions and net asset value *(Note (i))* | 559 | – | – | – | – | (155) | 404 |
| Additions | – | 7,103 | – | – | – | – | 7,103 |
| Disposals | – | (2,075) | – | – | – | – | (2,075) |
| Amortization | – | (14,538) | (3,875) | (26,614) | (3,447) | (476) | (48,950) |
| **Closing Net Book Amount** | 3,877,811 | 22,516 | 42,561 | 276,278 | 36,791 | 10,906 | 4,266,863 |
| **At 31 December 2015** | | | | | | | |
| Cost | 3,877,811 | 76,508 | 67,867 | 400,124 | 49,211 | 12,521 | 4,484,042 |
| Accumulated amortization | – | (53,992) | (25,306) | (123,846) | (12,420) | (1,615) | (217,179) |
| **Net Book Amount** | 3,877,811 | 22,516 | 42,561 | 276,278 | 36,791 | 10,906 | 4,266,863 |

**NOTE:**

*(i) These were adjustments to purchase consideration payable for acquisitions and net asset values related to certain acquisitions of businesses in 2015, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, the Group recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. The corresponding adjustments to goodwill and other intangible assets stated above were adjusting other assets/liabilities of the same amount for the year ended 31 December 2015.*

Amortization of system development, software and other license costs of US$5,461,000 (2015: US$5,273,000) and US$6,056,000 (2015: US$9,265,000) have been expensed in merchandising and administrative expenses and selling and distribution expenses respectively.

## 11 Intangible Assets (continued)

### Impairment Test for Goodwill

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

A summary of goodwill by reporting segment is presented below.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **US$'000** | US$'000 |
| Trading network | **2,995,417** | 3,321,708 |
| Logistics network | **561,823** | 556,103 |
| | **3,557,240** | 3,877,811 |

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 rate used of approximately 11% is pre-tax and reflects specific risks related to the relevant segments. The budgeted gross margin and net profit margin 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.

## 12 Property, Plant and Equipment

| | 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 1 January 2016** | | | | | | |
| Cost | 14,801 | 197,765 | 186,443 | 132,573 | 7,508 | 539,090 |
| Accumulated depreciation | (1,134) | (132,204) | (118,421) | (44,402) | (1,303) | (297,464) |
| **Net Book Amount** | 13,667 | 65,561 | 68,022 | 88,171 | 6,205 | 241,626 |
| **Year ended 31 December 2016** | | | | | | |
| Opening net book amount | 13,667 | 65,561 | 68,022 | 88,171 | 6,205 | 241,626 |
| Exchange differences | (1,111) | (3,317) | (2,193) | (4,706) | (33) | (11,360) |
| Acquisition of business | – | 322 | 75 | – | 1 | 398 |
| Additions | 189 | 12,898 | 27,516 | 40,602 | 515 | 81,720 |
| Disposal of business | (2,674) | (3,436) | (2,011) | (17,911) | (1,223) | (27,255) |
| Disposals | (3,020) | (1,168) | (481) | (838) | (161) | (5,668) |
| Depreciation | (394) | (18,590) | (23,082) | (14,341) | (1,504) | (57,911) |
| **Closing Net Book Amount** | 6,657 | 52,270 | 67,846 | 90,977 | 3,800 | 221,550 |
| **At 31 December 2016** | | | | | | |
| Cost | 7,613 | 192,025 | 187,292 | 138,287 | 4,917 | 530,134 |
| Accumulated depreciation | (956) | (139,755) | (119,446) | (47,310) | (1,117) | (308,584) |
| **Net Book Amount** | 6,657 | 52,270 | 67,846 | 90,977 | 3,800 | 221,550 |

## 12 Property, Plant and Equipment (continued)

| | 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 1 January 2015** | | | | | | |
| Cost | 18,188 | 199,319 | 184,332 | 141,861 | 7,814 | 551,514 |
| Accumulated depreciation | (2,424) | (131,732) | (120,951) | (49,158) | (2,342) | (306,607) |
| **Net Book Amount** | 15,764 | 67,587 | 63,381 | 92,703 | 5,472 | 244,907 |
| **Year ended 31 December 2015** | | | | | | |
| Opening net book amount | 15,764 | 67,587 | 63,381 | 92,703 | 5,472 | 244,907 |
| Exchange differences | (1,425) | (1,951) | (3,025) | (7,075) | (150) | (13,626) |
| Additions | 467 | 22,387 | 32,332 | 20,086 | 2,818 | 78,090 |
| Disposals | (533) | (2,020) | (1,833) | (1,545) | (308) | (6,239) |
| Depreciation | (606) | (20,442) | (22,833) | (15,998) | (1,627) | (61,506) |
| **Closing Net Book Amount** | 13,667 | 65,561 | 68,022 | 88,171 | 6,205 | 241,626 |
| **At 31 December 2015** | | | | | | |
| Cost | 14,801 | 197,765 | 186,443 | 132,573 | 7,508 | 539,090 |
| Accumulated depreciation | (1,134) | (132,204) | (118,421) | (44,402) | (1,303) | (297,464) |
| **Net Book Amount** | 13,667 | 65,561 | 68,022 | 88,171 | 6,205 | 241,626 |

Depreciation of US$32,536,000 (2015: US$33,973,000), US$19,635,000 (2015: US$19,075,000) and US$5,740,000 (2015: US$8,458,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2016, the Group had no land and buildings pledged as security for bank borrowings (31 December 2015: US$2,545,000) *(Note 23)*.

## 13 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:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Beginning of the year | **1,942** | 2,498 |
| Disposal of business | **(1,853)** | – |
| Amortization | **(65)** | (119) |
| Exchange differences | **103** | (437) |
| End of the year | **127** | 1,942 |

Amortization of US$65,000 (2015: US$117,000) and US$Nil (2015: US$2,000) has been expensed in selling and distribution expenses and merchandising and administrative expenses respectively.

## 14 Associated Companies

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Beginning of the year | **10,070** | 11,890 |
| Share of profits less losses of associated companies | **1,921** | 1,570 |
| Dividend received | **(835)** | (1,436) |
| Disposals | **–** | (1,802) |
| Exchange differences | **(151)** | (152) |
| Total interests in associated companies | **11,005** | 10,070 |

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

## 15 Joint Venture

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Beginning of the year | **313** | – |
| Capital injection | **612** | 313 |
| Share of loss of joint venture | **(173)** | – |
| Exchange differences | **8** | – |
| Total interest in joint venture | **760** | 313 |

Details of principal joint venture is set out in *Note 41*.

## 16 Available-for-sale Financial Assets

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Beginning of the year | **3,854** | 3,709 |
| Fair value gains on available-for-sale financial assets, net of tax *(Note 25)* | **310** | 126 |
| Exchange differences | **–** | 19 |
| End of the year | **4,164** | 3,854 |

Available-for-sale financial assets include the following:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Unlisted investments *(Note 37)* | **4,164** | 3,854 |

Available-for-sale financial assets are denominated in HK dollar.

## 17 Inventories

| | **2016**<br>**US$'000** | 2015<br>US$'000 |
|---|---|---|
| Finished goods | **237,968** | 502,447 |
| Raw materials | **39,873** | 63,555 |
| | **277,841** | 566,002 |

## 18 Due from/(to) Related Companies

| | **2016**<br>**US$'000** | 2015<br>US$'000 |
|---|---|---|
| **Trade** *(Note (a))* | | |
| Due from: | | |
| Associated companies | **7,743** | 6,983 |
| Other related companies | **473,229** | 463,369 |
| | **480,972** | 470,352 |
| **Non-trade** *(Note (b))* | | |
| Due from: | | |
| Associated companies | **455** | 355 |
| Other related companies | **5,606** | 16,232 |
| | **6,061** | 16,587 |
| | **487,033** | 486,939 |
| Due to: | | |
| Other related companies | **(2,093)** | (1,038) |

**NOTES:**

(a) *As at 31 December 2016, trade balances due from related companies of US$467,449,000 were current or less than 90 days past due. Amounts past due over 90 days were US$13,523,000.*

(b) *The amounts are unsecured, interest free and repayable on demand. The fair values of amounts due from related companies are approximately the same as the carrying values.*

## 19 Derivative Financial Instruments

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Forward foreign exchange contracts | | |
| – assets *(Note 37)* | **10,697** | 4,272 |

Gain in equity of US$7,185,000 (2015: US$2,812,000) on forward foreign exchange contracts as of 31 December 2016 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 25)*.

For the years ended 31 December 2016 and 2015, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

## 20 Trade and Other Receivables

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Trade and bills receivable – net | **1,547,208** | 1,689,413 |
| Other receivables, prepayments and deposits | **234,068** | 283,035 |
| | **1,781,276** | 1,972,448 |
| Less: non-current portion other receivables, prepayments and deposits | **(27,458)** | (26,217) |
| | **1,753,818** | 1,946,231 |

The fair values of the Group's trade and other receivables 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. The ageing of trade and bills receivable based on invoice date is as follows:

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Current to 90 days | **1,442,127** | 1,595,433 |
| 91 to 180 days | **87,280** | 83,376 |
| 181 to 360 days | **15,154** | 7,900 |
| Over 360 days | **2,647** | 2,704 |
| | **1,547,208** | 1,689,413 |

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

## 20 Trade and Other Receivables (continued)

As of 31 December 2016, trade receivables of US$1,529,486,000 (2015: US$1,673,045,000) that were current or less than 90 days past due were not considered impaired. Trade receivables of US$17,722,000 (2015: US$16,368,000) 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:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| 91 to 180 days | **3,651** | 7,596 |
| Over 180 days | **14,071** | 8,772 |
| | **17,722** | 16,368 |

As of 31 December 2016, outstanding trade receivables of US$56,599,000 (2015: US$35,252,000) and other receivables of US$17,452,000 (2015: US$11,316,000) were considered impaired and were fully provided. The individually impaired receivables mainly related to certain customers under the Trading Network, which had filed for Chapter 11 bankruptcy.

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

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| **At 1 January** | **46,568** | 51,957 |
| Provision for receivable impairment *(Note 4)* | **54,963** | 23,918 |
| Provision written off against receivables | **(22,715)** | (14,397) |
| Unused amounts reversed *(Note 4)* | **(1,474)** | (2,336) |
| Disposal of business/business distributed in specie | **(3,400)** | (12,225) |
| Exchange difference | **109** | (349) |
| **At 31 December** | **74,051** | 46,568 |

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$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.

## 20 Trade and Other Receivables (continued)

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| US dollar | **1,214,170** | 1,185,258 |
| HK dollar | **52,401** | 121,486 |
| Euro | **196,916** | 205,846 |
| Pound sterling | **82,235** | 75,001 |
| Renminbi | **85,802** | 143,031 |
| Malaysia Ringgit | **7,929** | 35,798 |
| Thailand Baht | **23,275** | 54,206 |
| Others | **91,090** | 125,605 |
| | **1,753,818** | 1,946,231 |

## 21 Cash and Cash Equivalents

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Cash and bank balances | **985,039** | 342,243 |

The effective interest rate at the balance sheet date on bank balances was 0.8% (2015: 0.3%) per annum; these deposits have an average maturity period of 5 days (2015: 6 days).

## 22 Trade and Other Payables

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Trade and bills payable | **2,083,875** | 2,464,785 |
| Accrued charges and sundry payables | **517,234** | 601,129 |
| | **2,601,109** | 3,065,914 |

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

At the balance sheet date, the ageing of trade and bills payable based on invoice date is as follows:

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

## 23 Bank Borrowings

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Long-term bank loans | | |
| – Unsecured *(Note 27)* | **–** | 100,000 |
| Short-term bank loans | | |
| – Secured | **–** | 3,260 |
| – Unsecured | **29,180** | 92,559 |
| | **29,180** | 95,819 |
| Total bank borrowings | **29,180** | 195,819 |

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2016.

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

| | **2016** | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD** | **PHP** | **IDR** | **Others** | USD | PHP | IDR | Others |
| Long-term bank loans | **–** | **–** | **–** | **–** | 1.5% | – | – | – |
| Short-term bank loans | **–** | **3.1%** | **8.0%** | **2.1%** | 1.4% | 3.1% | 10.3% | 4.5% |

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

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

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| US dollar | **–** | 167,800 |
| Philippine Peso | **14,581** | 12,496 |
| Indonesian Rupiah | **7,400** | 8,832 |
| Others | **7,199** | 6,691 |
| | **29,180** | 195,819 |

## 24 Share Capital, Share Options and Award Shares

| | No. of Shares (in thousand) | HK$'000 | Equivalent US$'000 |
|---|---|---|---|
| **Authorized** | | | |
| At 1 January 2015, ordinary shares of HK$0.0125 each | 12,000,000 | 150,000 | 19,231 |
| At 31 December 2015, ordinary shares of HK$0.0125 each | 12,000,000 | 150,000 | 19,231 |
| At 1 January 2016, ordinary shares of HK$0.0125 each | **12,000,000** | **150,000** | **19,231** |
| At 31 December 2016, ordinary shares of HK$0.0125 each | **12,000,000** | **150,000** | **19,231** |
| **Issued and Fully Paid** | | | |
| At 1 January 2015, ordinary shares of HK$0.0125 each | 8,360,398 | 104,505 | 13,398 |
| Issue of new shares of HK$0.0125 each pursuant to Share Award Scheme *(Note)* | 55,049 | 688 | 89 |
| At 31 December 2015, ordinary shares of HK$0.0125 each | 8,415,447 | 105,193 | 13,487 |
| At 1 January 2016, ordinary shares of HK$0.0125 each | **8,415,447** | **105,193** | **13,487** |
| At 31 December 2016, ordinary shares of HK$0.0125 each | **8,415,447** | **105,193** | **13,487** |

**NOTE:**
*The closing market price per Share on the date of the issue of new shares on 22 May 2015 was HK$7.32 per Share.*

## 24 Share Capital, Share Options and Award Shares (continued)

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 31 December 2016 are as follows:

| Grant Date | Exercise Price HK$ | Exercisable Period | Number of Share Options As at 1/1/2016 | Granted | Lapsed | As at 31/12/2016 |
|---|---|---|---|---|---|---|
| 22/12/2011 | 12.12[1] | 1/5/2014-30/4/2016 | 2,000,000 | – | (2,000,000) | – |
| 22/12/2011 | 12.12[1] | 1/5/2015-30/4/2017 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2016-30/4/2018 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2017-30/4/2019 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2018-30/4/2020 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2019-30/4/2021 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2020-30/4/2022 | 2,000,000 | – | – | 2,000,000 |
| 22/12/2011 | 12.12[1] | 1/5/2021-30/4/2023 | 2,000,000 | – | – | 2,000,000 |
| 21/5/2015 | 7.49 | 1/1/2016-31/12/2017 | 28,274,000 | – | (604,000) | 27,670,000 |
| 21/5/2015 | 7.49 | 1/1/2017-31/12/2018 | 29,935,000 | – | (1,208,000) | 28,727,000 |
| 21/5/2015 | 7.49 | 1/1/2018-31/12/2019 | 30,086,000 | – | (1,208,000) | 28,878,000 |
| 16/11/2015 | 5.81 | 1/1/2017-31/12/2018 | 285,000 | – | – | 285,000 |
| 16/11/2015 | 5.81 | 1/1/2018-31/12/2019 | 604,000 | – | – | 604,000 |
| 19/5/2016 | 4.27 | 1/1/2018-31/12/2019 | – | 604,000 | – | 604,000 |
| | | Total | 105,184,000 | 604,000 | (5,020,000) | 100,768,000 |

**NOTE:**

(1) *Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK$14.50 to HK$12.12 with effect from 31 August 2014.*

Subsequent to 31 December 2016, no Shares have been allotted and issued under the Share Option Scheme.

The Share Options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.21 years (2015: 3.15 years).

## 24 Share Capital, Share Options and Award Shares (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:

| Grant date | 22/12/2011 | 21/5/2015 | 16/11/2015 | 19/05/2016 |
|---|---|---|---|---|
| Option value | US$0.53 – US$0.77 | US$0.13 – US$0.17 | US$0.10 – US$0.11 | US$0.08 |
| Share price at grant date | HK$14.14 | HK$7.49 | HK$5.33 | HK$4.27 |
| Exercisable price | HK$12.12 *(Note (i))* | HK$7.49 | HK$5.81 | HK$4.27 |
| Standard deviation | 49% | 33% | 31% | 31% |
| Annual risk-free interest rate | 0.15%-1.35% | 0.08%-1.22% | 0.08%-1.25% | 0.53%-0.84% |
| Life of options | 5–12 years | 2–5 years | 3–5 years | 3–4 years |
| Dividend yield | 2.39% | 4.06% | 4.06% | 4.33% |

**NOTES:**

*(i) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK$14.50 to HK$12.12 with effect from 31 August 2014.*

## 24 Share Capital, Share Options and Award Shares (continued)

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 31 December 2016 are as follows:

| Grant Date | Fair Value per Share HK$ | Vesting Date | Number of Award Shares As at 1/1/2016 | Granted | Vested | Unvested/ Forfeited | As at 31/12/2016 |
|---|---|---|---|---|---|---|---|
| 21/5/2015 | 7.49 | 31/12/2016 | 13,108,100 | – | (11,922,800) | (1,185,300) | – |
| 21/5/2015 | 7.49 | 31/12/2017 | 20,097,500 | – | – | (1,828,000) | 18,269,500 |
| 21/5/2015 | 7.49 | 31/12/2018 | 13,914,300 | – | – | (1,279,900) | 12,634,400 |
| 21/5/2015 | 7.49 | 31/12/2019 | 6,994,300 | – | – | (643,400) | 6,350,900 |
| 16/11/2015 | 5.33 | 31/12/2016 | 100,600 | – | (90,400) | (10,200) | – |
| 16/11/2015 | 5.33 | 31/12/2017 | 346,400 | – | – | (33,700) | 312,700 |
| 16/11/2015 | 5.33 | 31/12/2018 | 342,100 | – | – | (33,000) | 309,100 |
| 16/11/2015 | 5.33 | 31/12/2019 | 245,900 | – | – | (23,100) | 222,800 |
| 19/5/2016 | 4.27 | 31/12/2016 | – | 10,400 | (10,000) | (400) | – |
| 19/5/2016 | 4.27 | 31/12/2017 | – | 394,500 | – | (11,700) | 382,800 |
| 19/5/2016 | 4.27 | 31/12/2018 | – | 381,700 | – | (11,100) | 370,600 |
| 19/5/2016 | 4.27 | 31/12/2019 | – | 373,400 | – | (10,800) | 362,600 |
| 14/11/2016 | 3.53 | 31/12/2017 | – | 67,600 | – | – | 67,600 |
| 14/11/2016 | 3.53 | 31/12/2018 | – | 64,700 | – | – | 64,700 |
| 14/11/2016 | 3.53 | 31/12/2019 | – | 64,700 | – | – | 64,700 |
| | | Total | 55,149,200 | 1,357,000 | (12,023,200) | (5,070,600) | 39,412,400 |

The fair value of the Award Shares was calculated based on the market price of the Company's shares at the respective grant date.

During the year, a total of 1,357,000 Award Shares were granted. 22,000 Award Shares granted to a connected person were purchased from open market and 1,335,000 Award Shares granted to non-connected persons were applied from the 5,070,600 Award Shares which had not been vested and/or been forfeited in accordance with the terms of the Share Award Scheme.

## 25 Reserves

| | Treasury Share US$'000 *(Note (iii))* | Capital Reserve US$'000 *(Note (i))* | Contribution Surplus US$'000 *(Note (ii))* | Employee Share-based Compensation Reserve US$'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 2016 | **(13,300)** | **2,306** | **710,000** | **54,662** | **2,845** | **2,812** | **(11,129)** | **(193,293)** | **554,903** |
| **Other Comprehensive (Expense)/ Income** | | | | | | | | | |
| Currency translation differences | – | – | – | – | – | – | – | (138,358) | (138,358) |
| Net fair value gains on available-for-sale financial assets, net of tax *(Note 16)* | – | – | – | – | 310 | – | – | – | 310 |
| Net fair value gains on cash flow hedges, net of tax | – | – | – | – | – | 4,373 | – | – | 4,373 |
| Remeasurement from post-employment benefits recognized in reserve, net of tax | – | – | – | – | – | – | (2,991) | – | (2,991) |
| **Transactions with Owners in their Capacity as Owners** | | | | | | | | | |
| Purchase of shares for Share Award Scheme | (12) | – | – | – | – | – | – | – | (12) |
| Employee Share Option and Share Award Scheme: | | | | | | | | | |
| – value of employee services | – | – | – | 22,664 | – | – | – | – | 22,664 |
| – vesting of shares for Share Award Scheme | 1,659 | – | – | (11,577) | – | – | – | – | (9,918) |
| Transfer to capital reserve | – | 479 | – | – | – | – | – | – | 479 |
| Balance at 31 December 2016 | **(11,653)** | **2,785** | **710,000** | **65,749** | **3,155** | **7,185** | **(14,120)** | **(331,651)** | **431,450** |

## 25 Reserves (continued)

| | Treasury Share US$'000 *(Note (iii))* | Capital Reserve US$'000 *(Note (i))* | Contribution Surplus US$'000 *(Note (ii))* | Employee Share-based Compensation Reserve US$'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 2015 | (6,739) | 3,922 | 710,000 | 37,049 | 2,719 | 8,889 | (11,066) | (110,676) | 634,098 |
| **Other Comprehensive (Expense)/ Income** | | | | | | | | | |
| Currency translation differences | – | – | – | – | – | – | – | (82,617) | (82,617) |
| Net fair value gains on available-for-sale financial assets, net of tax *(Note 16)* | – | – | – | – | 126 | – | – | – | 126 |
| Net fair value losses on cash flow hedges, net of tax | – | – | – | – | – | (6,077) | – | – | (6,077) |
| Remeasurement from post-employment benefits recognized in reserve, net of tax | – | – | – | – | – | – | (63) | – | (63) |
| **Transactions with Owners in their Capacity as Owners** | | | | | | | | | |
| Issue of new shares for Share Award Scheme | (89) | – | – | – | – | – | – | – | (89) |
| Purchase of shares for Share Award Scheme | (7,300) | – | – | – | – | – | – | – | (7,300) |
| Employee Share Option and Share Award Scheme: | | | | | | | | | |
| – value of employee services | – | – | – | 23,583 | – | – | – | – | 23,583 |
| – vesting of shares for Share Award Scheme | 828 | – | – | (5,970) | – | – | – | – | (5,142) |
| Transfer from capital reserve | – | (1,616) | – | – | – | – | – | – | (1,616) |
| Balance at 31 December 2015 | (13,300) | 2,306 | 710,000 | 54,662 | 2,845 | 2,812 | (11,129) | (193,293) | 554,903 |

**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) Contributed surplus arises from the transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000 in prior years.*

*(iii) Treasury share represents the excess share issued for settlement of consideration for certain prior year acquisitions held by the escrow agent and shares issued and purchased for Share Award Scheme held by the trustee.*

## 26 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$650 million and US$500 million respectively. 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 were classified as equity instruments and recorded in equity in the consolidated balance sheet. The amounts as at 31 December 2016 and 2015 included the accrued distribution payments.

## 27 Long-term Liabilities

| | **2016**<br>**US$'000** | 2015<br>US$'000 |
|---|---|---|
| Long-term bank loans – unsecured *(Note 23)* | **–** | 100,000 |
| Long-term notes – unsecured | **1,253,277** | 1,253,823 |
| Purchase consideration payable for acquisitions | **161,536** | 242,502 |
| Other long-term 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 |

Unsecured long-term notes issued to independent third parties in 2007 of US$499,819,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US$753,458,000 will mature in 2020 and bear annual coupon of 5.25%.

Non-current portion of purchase consideration payable for acquisitions is unsecured, interest-free and not repayable within twelve months. 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. Details of earn-out and earn-up remeasurement are set out in *Note 4* and *Note 37*.

## 27 Long-term Liabilities (continued)

The maturity of financial liabilities is as follows:

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Within 1 year | **567,613** | 86,266 |
| Between 1 and 2 years | **92,184** | 676,509 |
| Between 2 and 5 years | **759,023** | 841,129 |
| Wholly repayable within 5 years | **1,418,820** | 1,603,904 |
| Over 5 years | **28,582** | 8,841 |
| | **1,447,402** | 1,612,745 |

The fair values of long-term financial liabilities are as follows:

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Long-term bank loans – unsecured | **–** | 100,000 |
| Long-term notes – unsecured | **803,817** | 1,326,280 |
| Purchase consideration payable for acquisitions | **93,742** | 156,236 |
| Other long-term liabilities | **36,872** | 16,611 |
| | **934,431** | 1,599,127 |

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

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| US dollar | **1,376,652** | 1,534,682 |
| Pound sterling | **18,227** | 18,626 |
| Others | **52,523** | 59,437 |
| | **1,447,402** | 1,612,745 |

## 28 Post-employment Benefit Obligations

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Pension obligations *(Note)* | **18,560** | 16,813 |
| Long-service payment liabilities | **3,957** | 5,096 |
| | **22,517** | 21,909 |

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

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Present value of funded obligations | **39,430** | 39,642 |
| Fair value of plan assets | **(20,870)** | (22,829) |
| Net liabilities in the consolidated balance sheet | **18,560** | 16,813 |

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Current service cost | **1,618** | 1,757 |
| Past service cost and loss on settlements | **40** | 243 |
| Administrative expenses paid | **110** | 102 |
| Net interest expense | **393** | 447 |
| Total, included in staff costs *(Note 9)* | **2,161** | 2,549 |

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| At 1 January | **22,829** | 23,973 |
| Interest income | **590** | 675 |
| Exchange differences | **(2,267)** | (995) |
| Administrative expenses paid | **(110)** | (102) |
| Contributions | **1,446** | 1,331 |
| Benefits paid | **(2,092)** | (1,972) |
| Actuarial gain/(loss) on plan assets | **832** | (81) |
| Disposal of business | **(358)** | – |
| At 31 December | **20,870** | 22,829 |

## 28 Post-employment Benefit Obligations (continued)

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| At 1 January | **39,642** | 40,922 |
| Current service cost | **1,618** | 1,757 |
| Interest cost | **983** | 1,122 |
| Past service cost and loss on settlements | **40** | 243 |
| Actuarial losses from changes in experiences | **751** | 1,616 |
| Actuarial losses from changes in financial assumptions | **3,169** | 125 |
| Actuarial gains from changes in demographic assumptions | **(34)** | (1,026) |
| Exchange differences | **(3,063)** | (1,860) |
| Benefits paid | **(3,281)** | (3,257) |
| Disposal of business | **(395)** | – |
| At 31 December | **39,430** | 39,642 |

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

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| At 1 January | **16,813** | 16,949 |
| Exchange differences | **(796)** | (865) |
| Total expense charged in the consolidated profit and loss account | **2,161** | 2,549 |
| Remeasurement losses recognized in other comprehensive income | **3,054** | 796 |
| Contributions paid | **(1,446)** | (1,331) |
| Benefits paid | **(1,189)** | (1,285) |
| Disposal of business | **(37)** | – |
| At 31 December | **18,560** | 16,813 |

## 28 Post-employment Benefit Obligations (continued)

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

| | **2016**<br>**%** | 2015<br>% |
|---|---|---|
| Discount rate | **1.2-8.2** | 1.0-8.9 |
| Salary growth rate | **2.4-8.0** | 2.0-8.0 |
| Pension growth rate | **1.5-4.5** | 1.5-4.5 |

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

| | **Impact on defined benefit obligation** | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| Discount rate | **±0.25%** | **–2.72%** | **+2.85%** |

The above sensitivity analysis is based on a change in discount rate 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 consolidated balance sheet.

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

(vii) Plan assets comprised:

| | **2016**<br>**US$'000** | 2015<br>US$'000 |
|---|---|---|
| **Quoted Assets** | | |
| Cash and cash equivalents | **7,327** | 8,061 |
| Equity instruments | | |
| European | **2,563** | 2,781 |
| American | **622** | 621 |
| Asian | **713** | 800 |
| Global | **4** | 4 |
| Debt instruments | | |
| Government securities | **4,380** | 5,117 |
| Other securities and debt instruments | **3,584** | 3,151 |
| Investment funds | | |
| Unit investment trust funds | **596** | 1,436 |
| Investment bond funds | **790** | 735 |
| Mutual funds | **141** | 9 |
| Others | **150** | 114 |
| | **20,870** | 22,829 |

The weighted average duration of the defined benefit obligation ranges from 9.3 to 19.2 years.

## 28 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

| At 31 December 2016 | Within 10 Years US$'000 | Between 10-20 Years US$'000 | Beyond 20 Years US$'000 |
|---|---|---|---|
| Expected benefit payments | **27,696** | **34,588** | **29,227** |

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. In countries where there is no deep market in such bonds, the market yields on government bonds are used. 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 Group 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.

## 29 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using applicable taxation rates prevailing in the countries in which the Group operates.

The movements in the net deferred tax liabilities/(assets) are as follows:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| At 1 January | **(1,163)** | 7,278 |
| Credited to consolidated profit and loss account *(Note 6)* | **(5,209)** | (3,376) |
| Recognition of prior year unrecognized deferred tax assets *(Note 6)* | **–** | (6,795) |
| Acquisition of businesses | **(177)** | – |
| Disposal of business | **16,320** | – |
| Adjustments to purchase consideration payable for acquisitions and net asset value | **–** | (128) |
| Charged to other comprehensive income | **–** | 37 |
| Charged to hedging reserve | **1,156** | 1,045 |
| Exchange differences | **1,605** | 776 |
| At 31 December | **12,532** | (1,163) |

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$166,904,000 (2015: US$164,974,000) to carry forward against future taxable income, out of which US$11,740,000 will expire during 2017-2026. 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.

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:

| | **Provisions** | | **Decelerated Tax Depreciation Allowances** | | **Tax Losses** | | **Others** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Deferred Tax Assets** | **2016 US$'000** | 2015 US$'000 | **2016 US$'000** | 2015 US$'000 | **2016 US$'000** | 2015 US$'000 | **2016 US$'000** | 2015 US$'000 | **2016 US$'000** | 2015 US$'000 |
| At 1 January | **24,037** | 24,290 | **9,682** | 8,617 | **22,580** | 7,166 | **3,475** | 7,805 | **59,774** | 47,878 |
| Credited/(charged) to consolidated profit and loss account | **3,518** | 707 | **(824)** | 1,271 | **4,190** | 8,895 | **1,351** | (3,228) | **8,235** | 7,645 |
| Recognition of prior year unrecognized deferred tax assets | **–** | – | **–** | – | **–** | 6,795 | **–** | – | **–** | 6,795 |
| Charged to other comprehensive income | **–** | – | **–** | – | **–** | – | **–** | (37) | **–** | (37) |
| Disposal of business | **(6,739)** | – | **(115)** | – | **(12,262)** | – | **(145)** | – | **(19,261)** | – |
| Charged to hedging reserve | **–** | – | **–** | – | **–** | – | **–** | (1,045) | **–** | (1,045) |
| Exchange differences | **(614)** | (960) | **(1,028)** | (206) | **(583)** | (276) | **(4)** | (20) | **(2,229)** | (1,462) |
| At 31 December | **20,202** | 24,037 | **7,715** | 9,682 | **13,925** | 22,580 | **4,677** | 3,475 | **46,519** | 59,774 |

## 29 Deferred Taxation (continued)

| Deferred Tax Liabilities | Accelerated Tax Depreciation Allowances | | Intangible Assets Arising from Business Combinations | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 | **US$'000** | US$'000 | **US$'000** | US$'000 |
| At 1 January | **6,496** | 8,471 | **49,030** | 44,654 | **3,085** | 2,031 | **58,611** | 55,156 |
| Charged/(credited) to consolidated profit and loss account | **1,827** | (1,252) | **1,910** | 4,448 | **(711)** | 1,073 | **3,026** | 4,269 |
| Acquisition of businesses | **(177)** | – | **–** | – | **–** | – | **(177)** | – |
| Disposal of business | **(2,538)** | – | **(403)** | – | **–** | – | **(2,941)** | – |
| Adjustments to purchase consideration payable for acquisitions and net asset value | **–** | – | **–** | (128) | **–** | – | **–** | (128) |
| Credited to hedging reserve | **–** | – | **–** | – | **1,156** | – | **1,156** | – |
| Exchange differences | **(448)** | (723) | **(9)** | 56 | **(167)** | (19) | **(624)** | (686) |
| At 31 December | **5,160** | 6,496 | **50,528** | 49,030 | **3,363** | 3,085 | **59,051** | 58,611 |

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

| | **2016** | 2015 |
|---|---|---|
| | **US$'000** | US$'000 |
| Deferred tax assets | **16,419** | 36,527 |
| Deferred tax liabilities | **(28,951)** | (35,364) |
| | **(12,532)** | 1,163 |

The amounts shown in the consolidated balance sheet include the following:

| | **2016** | 2015 |
|---|---|---|
| | **US$'000** | US$'000 |
| Deferred tax assets to be recovered after more than 12 months | **4,038** | 32,286 |
| Deferred tax assets to be recovered within 12 months | **12,381** | 4,241 |
| Deferred tax liabilities to be settled after more than 12 months | **24,967** | 33,829 |
| Deferred tax liabilities to be settled within 12 months | **3,984** | 1,535 |

## 30 Notes to the Consolidated Cash Flow Statement

### (a) 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 |

## 30 Notes to the Consolidated Cash Flow Statement (continued)

### (b) Analysis of Changes in Financing Activities During the Year

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Share Capital Including Share Premium US$'000 *(Note 24 & 25)*** | **Bank Loans US$'000** | Share Capital Including Share Premium US$'000 *(Note 24 & 25)* | Bank Loans US$'000 |
| At 1 January | **718,105** | **195,819** | 712,874 | 179,850 |
| Non-cash movement: | | | | |
| Issue of shares for Share Award Scheme | **–** | **–** | 89 | – |
| Vesting of shares for Share Award Scheme | **9,918** | **–** | 5,142 | – |
| | **728,023** | **195,819** | 718,105 | 179,850 |
| Net (repayment)/drawdown of bank loans | **–** | **(166,639)** | – | 15,969 |
| At 31 December | **728,023** | **29,180** | 718,105 | 195,819 |

## 30 Notes to the Consolidated Cash Flow Statement (continued)

### (c) Disposal of Business

Details of net assets of disposed business at date of disposal are set out below:

| | 2016 US$'000 |
|---|---|
| Net assets disposed | |
| Non-current assets | 278,186 |
| Current assets | 540,177 |
| Current liabilities | (495,861) |
| Non-current liabilities | (3,002) |
| Less: Non-controlling interests | (4,255) |
| Book value of net assets disposed | 315,245 |

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

| | 2016 US$'000 |
|---|---|
| Consideration received net of expenses paid | 305,434 |
| Settlement of amount due from the disposed business to the Group | 65,917 |
| Less: Cash and cash equivalents of the disposed business | (55,155) |
| Net inflow of cash and cash equivalents in respect of disposal of business | 316,196 |

Analysis of net gain on disposal of business:

| | 2016 US$'000 |
|---|---|
| Estimated consideration net of expenses incurred | 323,116 |
| Less: Net assets disposed | (315,245) |
| Net gain on disposal of business | 7,871 |

## 31 Contingent Liabilities

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Guarantees in respect of banking facilities granted to: | | |
| Associated companies | **750** | 750 |

## 32 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 18 years. At 31 December 2016, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Within one year | **115,096** | 139,170 |
| In the second to fifth year inclusive | **227,061** | 209,399 |
| After the fifth year | **84,476** | 119,010 |
| | **426,633** | 467,579 |

### (b) Capital Commitments

| | **2016 US$'000** | 2015 US$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Property, plant and equipment | **2,665** | 1,945 |
| System development, software and other license costs | **3,134** | 1,170 |
| | **5,799** | 3,115 |

## 33 Charges on Assets

Save as disclosed in *Note 12*, there were no charges on the assets and undertakings of the Group as at 31 December 2016 and 2015.

## 34 Related Party Transactions

The Group had the following material transactions with its related parties during the year ended 31 December 2016 and 2015:

| | Note | **2016 US$'000** | 2015 US$'000 |
|---|---|---|---|
| Distribution and sales of goods | *(i)* | **20,090** | 28,128 |
| Operating leases rental paid | *(ii)* | **26,242** | 26,018 |
| Sourcing and supply chain management services income | *(iii)* | **1,412,770** | 1,627,351 |
| Rental and license fee paid | *(iv)* | **1,027** | 2,287 |
| Rental and license fee received | *(iv)* | **3,282** | 3,464 |
| Logistics related services income | *(v)* | **15,530** | 10,894 |

(i) Pursuant to the master distribution and sales of goods agreement entered into on 5 December 2014 with FH (1937) for a term of three years ending 31 December 2017, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(ii) Pursuant to the master agreement for leasing of properties dated 6 December 2013 entered into with FH (1937) for a term of three years ending 31 December 2016, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms.

(iii) Pursuant to the buying agency agreement entered into with Global Brands Group on 24 June 2014, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands Group. For the year ended 31 December 2016, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$1,412,770,000 (2015: US$1,627,351,000).

(iv) Pursuant to the master property agreement entered into with Global Brands Group on 24 June 2014, the Group and Global Brands Group had rental and license fee to and from one another for certain properties and license offices, showroom and warehouse premises on mutually agreed terms from the listing date of Global Brands Group to 31 December 2016. For the year ended 31 December 2016, aggregate rental and license fee paid to and from one another approximated to US$4,309,000 (2015: US$5,751,000).

(v) Pursuant to the master agreement for provision of logistics-related services entered into on 20 August 2015, the Group provided certain logistics-related services to FH (1937) and its associates during the year. The aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US$15,530,000 (2015: US$10,894,000).

The foregoing related party transactions also fall under the definition of continuing connected transactions of the Company as stipulated in the Listing Rules on the Stock Exchange.

During the year, a subsidiary of the Group disposed of the entire issued share capital of a property company which solely owns the property to a subsidiary of FH (1937) for a cash consideration of approximately US$4,375,000. The Group also entered into a leaseback agreement at an annual rental of approximately US$288,000 for a term up to 30 December 2019.

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 *Notes 10* and *39*.

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

## 35 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 dollar and US dollar with major global financial institutions, and the Group's revenues and payments were transacted predominantly in US dollar. 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 2016, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure had strengthened/weakened by 10% (2015: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 1.8% (2015: 2.2%) and 2.7% (2015: 3.5%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, borrowings and intangible assets.

#### (II) PRICE RISK

The Group is exposed to 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 investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2016 and up to the report date of the financial statements, 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 2016, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$10,697,000 (2015: US$4,272,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

#### (III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets, 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 Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

At 31 December 2016, 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$1,401,000 (2015: US$1,273,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

## 35 Financial Risk Management (continued)

### (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; and

(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 36% 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$56,599,000 (2015: US$35,252,000) and other receivables of US$17,452,000 (2015: US$11,316,000), which were considered impaired and fully provided, none of the other financial assets including available-for-sale financial assets *(Note 16)* and due from related companies *(Note 18)* 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.

## 35 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 21)*) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's non-derivative financial liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period from the balance sheet date 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 consolidated balance sheet and in *Note 27* 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 |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Purchase consideration payable for acquisitions | **71,121** | **97,575** | **894** | **3,983** |
| Long-term notes – unsecured | **553,125** | **39,375** | **809,063** | **–** |
| Trade and bills payable | **2,083,875** | **–** | **–** | **–** |
| Accrued charges and sundry payables | **517,234** | **–** | **–** | **–** |
| Financial guarantee contract | **750** | **–** | **–** | **–** |
| Due to related companies | **2,093** | **–** | **–** | **–** |
| Bank advances for discounted bills | **22,773** | **–** | **–** | **–** |
| Short-term bank loans | **29,180** | **–** | **–** | **–** |
| **At 31 December 2015** | | | | |
| Long-term bank loans | – | 100,000 | – | – |
| Purchase consideration payable for acquisitions | 87,433 | 70,271 | 94,538 | – |
| Long-term notes – unsecured | 66,875 | 553,125 | 848,438 | – |
| Trade and bills payable | 2,464,785 | – | – | – |
| Accrued charges and sundry payables | 601,129 | – | – | – |
| Financial guarantee contract | 750 | – | – | – |
| Due to related companies | 1,038 | – | – | – |
| Bank advances for discounted bills | 33,681 | – | – | – |
| Short-term bank loans | 95,819 | – | – | – |

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$299,688,000 (2015: US$212,734,000) and undiscounted contractual cash outflows of US$288,570,000 (2015: US$208,742,000).

## 36 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 23)*, long-term bank loans *(Note 23)* and long-term notes *(Note 27)* less cash and cash equivalents *(Note 21))*. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2016 and 2015 were as follows:

| | **2016**<br>**US$'000** | 2015<br>US$'000 |
|---|---|---|
| Long-term bank loans *(Note 23)* | **–** | 100,000 |
| Short-term bank loans *(Note 23)* | **29,180** | 95,819 |
| Long-term notes *(Note 27)* | **1,253,277** | 1,253,823 |
| | **1,282,457** | 1,449,642 |
| Less: Cash and cash equivalents *(Note 21)* | **(985,039)** | (342,243) |
| Net debt | **297,418** | 1,107,399 |
| Total equity | **3,483,148** | 3,010,166 |
| Total capital | **3,780,566** | 4,117,565 |
| Gearing ratio | **8%** | 27% |

## 37 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

| | **Level 1 US$'000** | **Level 2 US$'000** | **Level 3 US$'000** | **Total US$'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets *(Note 16)* | | | | |
| – Club debentures | **–** | **–** | **4,164** | **4,164** |
| Derivative financial instrument used for hedging *(Note 19)* | **–** | **10,697** | **–** | **10,697** |
| **Total Assets** | **–** | **10,697** | **4,164** | **14,861** |
| **Liability** | | | | |
| Purchase consideration payable for acquisitions | **–** | **–** | **161,536** | **161,536** |
| **Total Liability** | **–** | **–** | **161,536** | **161,536** |

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015:

| | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets *(Note 16)* | | | | |
| – Club debentures | – | – | 3,854 | 3,854 |
| Derivative financial instrument used for hedging *(Note 19)* | – | 4,272 | – | 4,272 |
| **Total Assets** | – | 4,272 | 3,854 | 8,126 |
| **Liability** | | | | |
| Purchase consideration payable for acquisitions | – | – | 242,502 | 242,502 |
| **Total Liability** | – | – | 242,502 | 242,502 |

## 37 Fair Value Estimation (continued)

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 maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

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.

There were no significant transfer of assets between level 1, level 2 and level 3 fair value hierarchy classifications during the year.

The following summarizes the major methods and assumptions used in estimating the fair values of the significant assets and liabilities classified as level 2 or 3 and the valuation process for assets and liabilities classified as level 3:

### DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGING

The Group relies on bank valuations to determine the fair value of financial assets/liabilities which in turn are determined using discounted cash flow analysis. These valuations maximize the use of observable market data. Foreign currency exchange prices are the key observable inputs in the valuation.

### PURCHASE CONSIDERATION PAYABLE FOR ACQUISITIONS

The Group recognizes the fair value of those purchase considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses and significant judgment on time value of money. These calculations use cash flow projections for post-acquisition performance. The discount rate used is based on the then prevailing incremental cost of borrowings of the Group at time of acquisitions, which approximated to 2.5%.

## 37 Fair Value Estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Purchase Consideration Payable for Acquisitions US$'000** | **Others US$'000** | Purchase Consideration Payable for Acquisitions US$'000 | Others US$'000 |
| Opening balance | **242,502** | **3,854** | 458,080 | 3,709 |
| Fair value gains | **–** | **310** | – | 126 |
| Additions | **6,747** | **–** | – | – |
| Settlement | **(89,058)** | **–** | (102,268) | – |
| Remeasurement of acquisitions payable | **–** | **–** | (116,973) | – |
| Others | **1,345** | **–** | 3,663 | 19 |
| Closing balance | **161,536** | **4,164** | 242,502 | 3,854 |
| Total gain for the year included in profit or loss | **–** | **–** | (116,973) | – |

## 38 Balance Sheet and Reserve Movement of the Company

### Balance Sheet of the Company

| | Note | As at 31 December 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Interests in subsidiaries | | **1,126,780** | 1,339,604 |
| **Current Assets** | | | |
| Due from subsidiaries | | **5,147,051** | 4,182,044 |
| Other receivables, prepayments and deposits | | **140** | 139 |
| Cash and bank balances | | **293** | 5,808 |
| | | **5,147,484** | 4,187,991 |
| **Current Liabilities** | | | |
| Accrued charges and sundry payables | | **10,093** | 9,464 |
| Current portion of long-term notes | | **499,819** | – |
| | | **509,912** | 9,464 |
| **Net Current Assets** | | **4,637,572** | 4,178,527 |
| **Total Assets Less Current Liabilities** | | **5,764,352** | 5,518,131 |
| **Financed by:** | | | |
| Share capital | | **13,487** | 13,487 |
| Reserves | *(a)* | **3,838,719** | 3,747,821 |
| Shareholders' funds | | **3,852,206** | 3,761,308 |
| Holders of perpetual capital securities | | **1,158,687** | 503,000 |
| **Total Equity** | | **5,010,893** | 4,264,308 |
| **Non-current Liabilities** | | | |
| Long-term notes | | **753,459** | 1,253,823 |
| | | **5,764,352** | 5,518,131 |

**William Fung Kwok Lun**
*Group Chairman*

**Spencer Theodore Fung**
*Group Chief Executive Officer*

# 38 Balance Sheet and Reserve Movement of the Company (continued)

## (a) Reserve Movement of the Company

| | Share Premium US$'000 | Treasury Share US$'000 *(Note 25 (iii))* | Contribution Surplus US$'000 *(Note (i))* | Employee Share-based Compensation Reserve US$'000 | Retained Earnings US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **704,618** | **(13,300)** | **974,189** | **54,662** | **2,027,652** | **3,747,821** |
| Profit for the year | **–** | **–** | **–** | **–** | **354,707** | **354,707** |
| Purchase of shares for Share Award Scheme | **–** | **(12)** | **–** | **–** | **–** | **(12)** |
| Employee Share Option and Share Award Scheme: | | | | | | |
| – value of employee services | **–** | **–** | **–** | **22,664** | **–** | **22,664** |
| – vesting of shares for Share Award Scheme | **9,918** | **1,659** | **–** | **(11,577)** | **–** | **–** |
| Transaction costs related to issuance of perpetual capital securities | **–** | **–** | **–** | **–** | **(4,500)** | **(4,500)** |
| 2015 final dividend paid | **–** | **–** | **–** | **–** | **(162,670)** | **(162,670)** |
| 2016 interim dividend paid | **–** | **–** | **–** | **–** | **(119,291)** | **(119,291)** |
| **Balance at 31 December 2016** | **714,536** | **(11,653)** | **974,189** | **65,749** | **2,095,898** | **3,838,719** |
| **Balance at 1 January 2015** | 699,476 | (6,739) | 974,189 | 37,049 | 2,184,652 | 3,888,627 |
| Profit for the year | – | – | – | – | 287,309 | 287,309 |
| Issue of shares for Share Award Scheme | – | (89) | – | – | – | (89) |
| Purchase of shares for Share Award Scheme | – | (7,300) | – | – | – | (7,300) |
| Employee Share Option and Share Award Scheme: | | | | | | |
| – value of employee services | – | – | – | 23,583 | – | 23,583 |
| – vesting of shares for Share Award Scheme | 5,142 | 828 | – | (5,970) | – | – |
| 2014 final and special dividend paid | – | – | – | – | (303,388) | (303,388) |
| 2015 interim dividend paid | – | – | – | – | (140,921) | (140,921) |
| **Balance at 31 December 2015** | 704,618 | (13,300) | 974,189 | 54,662 | 2,027,652 | 3,747,821 |

**NOTE:**

(i) *The contribution surplus 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.*

(3) *The transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000 in prior years.*

# 39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

## (a) Directors' and Chief Executive's Emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

| | Emoluments Paid or Receivable in respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Fees US$'000 | Salary US$'000 | Discretionary Bonuses US$'000 *(Note (i))* | Housing Allowance US$'000 | Award Shares Gain US$'000 *(Note (ii))* | Estimated Money Value of Other Benefits US$'000 *(Note (iii))* | Employer's Contribution to a Retirement Benefit Scheme US$'000 | Remunerations Paid or Receivable in respect of Accepting Office as Director US$'000 | Emoluments Paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking US$'000 | Total US$'000 |
| **Executive Directors** | | | | | | | | | | |
| William Fung Kwok Lun | 39 | 618 | 1,335 | - | - | - | - | - | - | 1,992 |
| Spencer Theodore Fung | 39 | 653 | 1,745 | - | 107 | - | 2 | - | - | 2,546 |
| Marc Robert Compagnon | 39 | 603 | 3,129 | - | 91 | 38 | 2 | - | - | 3,902 |
| **Non-executive Directors** | | | | | | | | | | |
| Victor Fung Kwok King | 58 | - | - | - | - | - | - | - | - | 58 |
| Paul Edward Selway-Swift | 64 | - | - | - | - | - | - | - | - | 64 |
| Allan Wong Chi Yun | 71 | - | - | - | - | - | - | - | - | 71 |
| Martin Tang Yue Nien | 65 | - | - | - | - | - | - | - | - | 65 |
| Margaret Leung Ko May Yee | 64 | - | - | - | - | - | - | - | - | 64 |

**NOTES:**

*(i)* *The amounts are accrued discretionary bonuses for 2016.*

*(ii)* *Award Shares gain is determined based on the market price at the vesting date.*

*(iii)* *Other benefits include mortgage interest subsidy.*

## 39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

### (a) Directors' and Chief Executive's Emoluments (continued)

For the year ended 31 December 2015:

| | Emoluments Paid or Receivable in respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Fees US$'000 | Salary US$'000 | Discretionary Bonuses US $'000 *(Note (i))* | Housing Allowance US$'000 | Award Shares Gain US$'000 *(Note (ii))* | Estimated Money Value of Other Benefits US$'000 *(Note (iii))* | Employer's Contribution to a Retirement Benefit Scheme US$'000 | Remunerations Paid or Receivable in respect of Accepting Office as Director US$'000 | Emoluments paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking US$'000 | Total US$'000 |
| **Executive Directors** | | | | | | | | | | |
| William Fung Kwok Lun | 39 | 618 | 1,828 | – | – | – | – | – | – | 2,485 |
| Spencer Theodore Fung | 39 | 703 | 2,411 | – | 61 | – | 2 | – | – | 3,216 |
| Marc Robert Compagnon | 39 | 639 | 3,127 | – | 52 | 43 | 2 | – | – | 3,902 |
| **Non-executive Directors** | | | | | | | | | | |
| Victor Fung Kwok King | 61 | – | – | – | – | – | – | – | – | 61 |
| Paul Edward Selway-Swift | 64 | – | – | – | – | – | – | – | – | 64 |
| Allan Wong Chi Yun | 71 | – | – | – | – | – | – | – | – | 71 |
| Franklin Warren McFarlan *(Note (iv))* | 27 | – | – | – | – | – | – | – | – | 27 |
| Martin Tang Yue Nien | 64 | – | – | – | – | – | – | – | – | 64 |
| Margaret Leung Ko May Yee | 64 | – | – | – | – | – | – | – | – | 64 |

**NOTES:**

*(i)* *The amounts are accrued discretionary bonuses for 2015.*

*(ii)* *Award Shares gain is determined based on the market price at the vesting date.*

*(iii)* *Other benefits include mortgage interest subsidy.*

*(iv)* *Retired as Independent Non-executive Director of the Company with effect from 21 May 2015.*

## 39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

### (a) Directors' and Chief Executive's Emoluments (continued)

During the year, no Share (2015: Nil) was issued to any Directors of the Company under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2016, certain Directors held the following Share Options to acquire Shares of the Company:

| No. of Share Options | Exercise Price | Exercisable Period |
|---|---|---|
| 14,000,000 (2015: 16,000,000) | HK$12.12[1] | Exercisable in seven equal tranches during the period from 1/5/2015 to 30/4/2023 with each tranche having an exercisable period of two years |
| 16,023,000 (2015: 16,023,000) | HK$7.49 | Exercisable in three equal tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years |

**NOTE:**

(1) *Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK$14.50 to HK$12.12 with effect from 31 August 2014.*

The closing market price of the Shares as at 30 December 2016 was HK$3.41.

### (b) Directors' Termination Benefits

No termination benefit was provided to or receivable by any director during the year as compensation for the early termination of appointment (2015: None).

### (c) Consideration Provided to Third Parties for Making Available Directors' Services

No consideration was provided to or receivable by third parties for making available directors' services (2015: None).

### (d) Information about Loans, Quasi-Loans and Other Dealings in Favour of Directors, Controlled Bodies Corporate by and Connected Entities with Such Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2015: None).

### (e) Directors' Material Interests in Transactions, Arrangements or Contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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.

## 40 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 29 March 2017.

## 41 Principal Subsidiaries, Associated Companies and Joint Venture

| | | Place of Incorporation and Operation | Issued and Fully Paid Share Capital | Percentage of Equity Held by the Company | Principal Activities |
|---|---|---|---|---|---|
| *Note* | **Principal Subsidiaries** | | | | |
| | **Held Directly** | | | | |
| *(1)* | Integrated Distribution Services Group Limited | Bermuda | Ordinary US$12,000 | 100 | Investment holding |
| *(1)* | LF Centennial Limited | British Virgin Islands | Ordinary US$50,000 | 100 | Investment holding |
| *(1)* | LF Credit Limited | Bermuda | Ordinary US$12,000 | 100 | Investment holding |
| | Li & Fung (B.V.I.) Limited | British Virgin Islands | Ordinary US$400,010 | 100 | Marketing services and investment holding |
| | **Held Indirectly** | | | | |
| *(1)* | 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 |
| *(1)* | Appleton Holdings Ltd. | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| | B.G.S. Limited | Thailand | Ordinary Baht 288,000<br>Preference Baht 712,000 | 100 | Provision of laboratory services |
| | Black Cat Fireworks Limited | England | Ordinary GBP15,500,000 | 100 | Wholesaling |
| | Bossini Fashion GmbH | Germany | EUR468,000 | 100 | Importer |
| | 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 |
| *(1)* | Catalyst Direct Sarl | France | EUR10,000 | 100 | Wholesaling |
| *(1)* | Catalyst Tags Inc. | U.S.A. | Common stock US$10,000 | 100 | Distribution |
| *(1)* | Centennial (Luxembourg) S.a.r.l. | Luxembourg | EUR8,931,250 | 100 | Investment holding |
| | Character Direct Limited | Hong Kong | Ordinary HK$2 | 100 | Design and marketing |
| | 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 |
| *(1)* | Colby Group Holdings Limited | British Virgin Islands | Ordinary US$45,000 | 100 | Investment holding |
| *(1)* | Colby Property Holdings Limited | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| | Comet Feuerwerk GmbH | Germany | EUR1,000,000 | 100 | Fireworks wholesaling |
| | Concept 3 Limited | Hong Kong | Ordinary HK$2 | 100 | Investment holding |
| *(1)* | 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 |

## 41 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 |
|---|---|---|---|---|---|
| (1) | Crimzon Rose Accessories (Shenzhen) Co. Ltd. | The People's Republic of China | HK$1,500,000 | 100 foreign-owned enterprise | Wholesaling |
| | CS International Limited | Hong Kong | Ordinary HK$1,000,000 | 100 | Provision of supply chain management and consultancy services |
| | Definitive Sourcing (India) Private Limited | India | Rs100,000 | 100 | Buying services for sourcing goods |
| (1) | Direct Sourcing Group Holdings Limited | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| (1) | 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<br>Ordinary "B" HK$200,000 | 60 | Export trading |
| | Dodwell (Singapore) Pte. Ltd. | Singapore | Ordinary S$200,000 | 100 | Export trading |
| (1) | Dongguan LF Beauty Manufacturing Services Limited | The People's Republic of China | HK$11,220,000 | 100 foreign-owned enterprise | Trading and manufacturing |
| (1) | Dongguan LF Products Trading Limited | The People's Republic of China | RMB5,000,000 | 100 foreign-owned enterprise | Sample design and export trading services |
| | DSG (Bangladesh) Limited | Bangladesh | Ordinary TK$3,750,000 | 100 | Export trading services |
| | DSG (Hong Kong) Limited | Hong Kong | Ordinary HK$1 | 100 | Provision of management support services |
| | DSG (Shenzhen) Limited | The People's Republic of China | RMB3,000,000 | 100 foreign-owned enterprise | Export trading services |
| (1) | 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 |
| | Estuary Logistics Group Limited | England | Ordinary "A" GBP95<br>Ordinary "B" (Non-voting) GBP5 | 100 | Investment holding |
| | Estuary Logistics Limited | England | Ordinary "A" GBP200<br>Ordinary "B" (Non-voting) GBP100 | 100 | Provision of logistics services |
| (1) | Far East Logistics (Shenzhen) Co. Ltd. | The People's Republic of China | HK$1,500,000 | 100 foreign-owned enterprise | Wholesaling |
| | Fenix Fashion Limited | Hong Kong | Ordinary HK$1 | 100 | Export trading |
| | GMR (Hong Kong) Limited | Hong Kong | Ordinary HK$2 | 100 | Export trading |

## 41 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** | | | | |
| (1) | 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 |
| | GSCM (HK) Limited | Hong Kong | Ordinary HK$140,000 | 100 | Export trading |
| (1) | GSCM LLC | U.S.A. | Capital contribution US$1 | 100 | Trading of apparel |
| | Hanson Im-und Export GmbH | Germany | EUR26,000 | 100 | Wholesaling |
| (1) | 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 |
| | HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi | Turkey | YTL25,000 | 100 | Manufacturing |
| (1) | IDS Group Limited | British Virgin Islands | Ordinary US$949,165 | 100 | Investment holding |
| | Imagine POS Limited | Hong Kong | Ordinary "A" HK$2,000,000<br>Ordinary "B" HK$757,471 | 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 |
| | Jackel Cosmetics Limited | Hong Kong | Class "A" HK$9,950,645<br>Class "B" non-voting HK$13,890 | 100 | Export trading |
| | Jackel International (Asia) Limited | Hong Kong | Ordinary "A" HK$346,650<br>Ordinary "B" HK$86,850 | 100 | Investment holding |
| (1) | Jackel, Inc. | U.S.A. | Class "A" voting common stock US$1<br>Class "B" non-voting common stock US$99 | 100 | Export trading |
| | JV Cosmetics Company Limited | Hong Kong | Ordinary HK$1,000,000 | 100 | Investment holding |
| | Kariya Industries Limited | Hong Kong | Ordinary HK$1,000,000 | 100 | Export trading |
| | Lenci Calzature SpA | Italy | Equity shares EUR206,400 | 100 | Design, marketing and sourcing |
| | LF (Philippines), Inc. | The Philippines | Common shares Pesos 21,000,000 | 100 | Provision of logistics services |
| (1) | LF Beauty (Shenzhen) Limited | The People's Republic of China | HK$8,500,000 | 100 foreign-owned enterprise | Export trading services |
| | LF Beauty (Thailand) Limited | Thailand | Ordinary Baht 469,500,000 | 100 | Manufacturing of household, pharmaceutical and personal care products |
| | LF Beauty (UK) Limited | England | Ordinary GBP100 | 100 | Design, marketing and manufacturing |
| (1) | LF Beauty France SAS (Formerly known as Jackel France SAS) | France | Ordinary EUR37,500 | 100 | Export trading |

## 41 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 |
|---|---|---|---|---|---|
| *(1)* | LF Beauty Inc. | U.S.A. | Common stock US$1 | 100 | Investment holding |
| | LF Beauty Limited | Hong Kong | Ordinary HK$1 | 100 | Export trading |
| *(1)* | LF Beauty Manufacturing China Co. Ltd. | The People's Republic of China | HK$105,000,000 | 100 foreign-owned enterprise | Manufacturing and trading |
| | LF Centennial Pte. Ltd. | Singapore | Ordinary S$100,000 | 100 | Export trading services |
| | LF Centennial Services (Hong Kong) Limited | Hong Kong | Ordinary HK$1 | 100 | Provision of management support services |
| *(1)* | 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 credit services |
| *(1)* | LF Distribution Holding Inc. | U.S.A. | Common stock US$1 | 100 | Investment holding |
| | LF Distribution International Holding Limited | Hong Kong | Ordinary US$1 | 100 | Investment holding |
| *(1)* | LF Distribution International Inc. | U.S.A. | Common stock US$1 | 100 | Investment holding |
| *(1)* | LF Distribution Limited | Bermuda | Ordinary US$100 | 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 Europe Trading Limited (Formerly known as 888 UK Limited) | England | Ordinary GBP100 | 100 | Service company |
| | 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 Freight (Hong Kong) Limited | Hong Kong | Ordinary HK$2 | 100 | Provision of management support services |
| | LF Home Limited | Hong Kong | Ordinary HK$2 | 100 | Export trading |
| *(1)* | 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 | Provision of freight forwarding services |
| | LF Logistics (Cambodia) Limited | Cambodia | Ordinary Riels 20,000,000 | 100 | Provision of freight forwarding and other logistics services |
| | LF Logistics (China) Co., Ltd | The People's Republic of China | RMB50,000,000 | 100 foreign-owned enterprise | Provision of freight forwarding and other logistics services |
| *(1)* | LF Logistics (Guangzhou) Co., Ltd. | The People's Republic of China | RMB10,000,000 | 100 foreign-owned enterprise | Provision of logistics services |
| | LF Logistics (Hong Kong) Limited | Hong Kong | Ordinary HK$10,000 | 100 | Provision of logistics services |

## 41 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** | | | | |
| *(1)* | LF Logistics (India) Private Limited | India | Ordinary Rs15,000,000 | 100 | Logistics, supply chain management and freight forwarding |
| *(1)* | LF Logistics (Jiangsu) Co., Ltd. | The People's Republic of China | RMB10,000,000 | 100 foreign-owned enterprise | Provision of logistics services |
| | 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 | Freight forwarding and other logistics services |
| | LF Logistics (UK) Limited | England | Ordinary GBP25,050,000 | 100 | Provision of logistics services |
| | LF Logistics (Vietnam) Company Limited | Vietnam | Charter capital US$300,000 | 100 | Storage and Warehousing Services |
| | LF Logistics Holding (Thailand) Limited | Thailand | Ordinary Baht 50,000,000 | 100 | Investment holding |
| *(1)* | LF Logistics Holding Limited | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| | LF Logistics Holdings (UK) Limited | England | Ordinary GBP1 | 100 | Investment holding |
| *(1)* | LF Logistics Japan Limited | Japan | Ordinary JPY10,000,000 | 100 | Provision of logistics services |
| *(1)* | LF Logistics Korea Limited | Korea | Common stock KRW300,000,000 | 100 | Provision of freight forwarding and other logistics services |
| *(1)* | LF Logistics Limited | Bermuda | Ordinary US$100 | 100 | Investment holding |
| | LF Logistics Management Limited | Hong Kong | Ordinary HK$2 | 100 | Provision of management and consultancy services |
| *(1)* | LF Logistics Pakistan (Private) Limited | Pakistan | Ordinary Rs5,000,000 | 100 | Provision of freight forwarding 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 freight forwarding, warehousing and distribution services, agency and supply chain management services |
| *(1)* | LF Logistics USA LLC | U.S.A. | Capital contribution US$1 | 100 | Provision of freight forwarding and other logistics services |
| *(1)* | LF Men's Group LLC | U.S.A. | Capital contribution US$1 | 100 | Wholesaling |
| | LF Performance Services Sdn. Bhd. | Malaysia | Ordinary RM250,000 | 70 | House Royal Custom's bonded warehouse licence |
| | LF Products (Hong Kong) Limited | Hong Kong | Ordinary HK$1 | 100 | Provision of management support services |
| | LF Products (Shanghai) Limited | The People's Republic of China | RMB5,000,000 | 100 foreign-owned enterprise | Export, import and domestics trading |

## 41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

| | | Place of Incorporation and Operation | Issued and Fully Paid Share Capital | Percentage of Equity Held by the Company | Principal Activities |
|---|---|---|---|---|---|
| ***Note*** | **Principal Subsidiaries** | | | | |
| *(1)* | LF Products International (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 |
| *(1)* | LF Sourcing (Millwork) LLC | U.S.A. | Capital contribution US$1 | 100 | Sourcing and export trading |
| *(1)* | LF Sourcing Sportswear LLC | U.S.A. | Capital contribution US$1 | 100 | Wholesaling |
| | LFL Management (Thailand) Limited | Thailand | Ordinary Baht 10,000,000 | 100 | Investment holding |
| | LFL Services (Thailand) Limited | Thailand | Ordinary Baht 2,000,000 | 100 | Investment holding |
| *(1)* | Li & Fung (Australia) Proprietary Limited | Australia | Ordinary AU$1 | 100 | Marketing liaison |
| | Li & Fung (Bangladesh) Limited | Bangladesh | Ordinary TK$9,500,000 | 100 | Export trading services |
| *(1)* | 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 |
| *(1)* | 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<br>Non-voting deferred HK$8,600,000 | 100 | Investment holding |
| *(1)* | Li & Fung (Guatemala) S.A. | Guatemala | Nominative shares Q5,000 | 100 | Export trading services |
| *(1)* | 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 KRW200,000,000 | 100 | Export trading services |
| *(1)* | Li & Fung (Mauritius) Limited | Mauritius | "A" Shares Rs750,000<br>"B" Shares Rs500,000 | 60 | Export trading services |
| *(1)* | Li & Fung (Morocco) SARL | Morocco | Ordinary Dirhams10,000 | 100 | Export trading services |
| *(1)* | Li & Fung (Nicaragua), Sociedad Anonima | Nicaragua | Nominative shares C$50,000 | 100 | Export trading |
| | Li & Fung (Philippines) Inc. | The Philippines | Common shares Peso 1,000,000 | 100 | Export trading services |
| *(1)* | 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<br>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 Foundation Limited | Hong Kong | – | 100 | Charity |

## 41 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** | | | | |
| (1) | Li & Fung Mexico S.A. de C.V. | Mexico | Nominative common shares MXP150,000 | 100 | Service and import trading |
| | Li & Fung Mumessillik Pazarlama Limited Sirketi | Turkey | YTL45,356,100 | 100 | Export trading services |
| (1) | 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 |
| (1) | Li & Fung Trading (Italia) S.r.l. | Italy | EUR100,000 | 100 | Export trading services |
| | Li & Fung Trading (Shanghai) Limited | The People's Republic of China | RMB50,000,000 | 100 foreign-owned enterprise | Export trading |
| (1) | Li & Fung Trading Service (Guangzhou) Limited | The People's Republic of China | 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 |
| (1) | Li & Fung Trading Services (Malaysia) Sdn. Bhd. | Malaysia | Ordinary RM 500,000 | 100 | Sourcing 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 | Provision of management 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 GBP1,000 | 100 | Investment holding |
| | Lornamead GmbH | Germany | EUR25,000 | 100 | Manufacturing of perfumes and toilet preparations |
| | Lornamead Group Limited | England | Ordinary GBP1,000 | 100 | Investment holding |
| (1) | Lornamead Inc. | U.S.A. | Common stock US$26,824.8975 | 100 | Wholesaling |
| | Lornamead UK Limited | England | Ordinary GBP100 | 100 | Manufacturing of perfumes and toilet preparations |
| (1) | Mercury (BVI) Holdings Limited | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| | Meredith Associates Limited | Hong Kong | Ordinary US$1,327,932 | 100 | Investment holding |

## 41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

| | | Place of Incorporation and Operation | Issued and Fully Paid Share Capital | Percentage of Equity Held by the Company | Principal Activities |
|---|---|---|---|---|---|
| ***Note*** | **Principal Subsidiaries** | | | | |
| *(1)* | Mighty Hurricane Holdings Inc. | U.S.A. | Common stock US$100 | 100 | Wholesaling |
| | Miles Fashion Asia Pte. Ltd. | Singapore | Ordinary S$1 | 100 | Export trading |
| | Miles Fashion Group France EURL | France | EUR10,000 | 100 | Wholesaling |
| *(1)* | Miles Fashion USA, Inc. | U.S.A. | Common stock US$1,000 | 100 | Importer |
| | Miles GmbH | Germany | EUR11,000,000 | 100 | Importer |
| *(1)* | Millwork Holdings Co., Inc. | U.S.A. | Common stock US$1 | 100 | Investment holding |
| | Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi | Turkey | A Shares YTL2,249,975<br>B Shares YTL25 | 100 | Manufacturing |
| | Ningbo Zhicheng Customs Brokerage Co., Ltd. | The People's Republic of China | RMB1,500,000 | 100 | Provision of Customs brokerage serivces |
| | P.T. Lifung Indonesia | Indonesia | Ordinary US$500,000 | 100 | Export trading services |
| | Paco Trading (International) Limited | Hong Kong | Ordinary HK$2 | 100 | Export trading |
| *(1)* | PATCH Licensing LLC | U.S.A. | Capital contribution US$1 | 66.67 | Export trading services |
| | 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 | EUR4,030,303 | 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 |
| *(1)* | PT Direct Sourcing Indonesia | Indonesia | Ordinary US$250,000 | 100 | Export trading services |
| *(1)* | PT. IDS Logistics Indonesia | Indonesia | Ordinary Rp1,820,400,000 | 100 | Provision of logistics services |
| | PT. LF Beauty Manufacturing Indonesia | Indonesia | Ordinary Rp453,600,000 | 100 | Manufacturing of personal care,household and cosmetic products |
| *(1)* | PT. LF Services Indonesia | Indonesia | Ordinary Rp5,000,000,000 | 100 | Logistics, transport and other services |
| *(1)* | Ralsey Group Ltd. | U.S.A. | Common stock US$1 | 100 | Wholesaling |
| *(1)* | Ratners Enterprises Ltd. | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |

## 41 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** | | | | |
| (1) | Region Giant Holdings Limited | British Virgin Islands | Ordinary US$31 | 100 | Investment holding |
| | RMS Trading GmbH | Germany | EUR25,000 | 100 | General trading of merchandise |
| | RT Sourcing (Shenzhen) Limited | The People's Republic of China | HK$1,000,000 | 100 foreign-owned enterprise | Export trading services |
| | Shanghai IDS Distribution Co., Ltd. | The People's Republic of China | US$3,100,000 | 100 foreign-owned enterprise | Storage and logistic transportation management |
| (1) | 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<br>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 |
| | Silvereed (Hong Kong) Limited | Hong Kong | Ordinary HK$1 | 100 | Export trading |
| (1) | Simkar 2 Limited | Cayman Islands | Ordinary US$50,000 | 100 | Investment holding |
| (1) | Simkar Limited | Cayman Islands | Ordinary US$49,999.75 | 100 | Investment holding |
| | Sky Million International Limited | Hong Kong | Ordinary HK$2 | 100 | Property investment |
| (1) | STS Shenzhen Testing Service Limited | The People's Republic of China | US$660,000 | 100 foreign-owned enterprise | Testing and technology consultation |
| (1) | Tantallon Enterprises Limited | British Virgin Islands | Ordinary US$1 | 100 | Investment holding |
| (1) | Texnorte II – Industrias Texteis, Limitada | Portugal | EUR5,000 | 100 | Export trading services |
| | Texnorte Industrial Limited | Hong Kong | Ordinary HK$2 | 100 | Export trading |
| (1) | Toy Island (USA) LLC | U.S.A. | Capital contribution US$100 | 100 | Marketing |
| | Uncle Sam Online Vertriebs-und Vermarktungsrechte GmbH | Germany | EUR26,000 | 100 | Wholesaling |
| | Ventana Bekleidungsfabrikation GmbH | Germany | EUR26,000 | 100 | Wholesaling |
| | Visage Group Limited | England | Ordinary GBP100,000 | 100 | Investment holding |
| | Visage Holdings (2010) Limited | England | Ordinary GBP2 | 100 | Investment holding |
| | Visage Limited | England | Ordinary GBP54,100 | 100 | Design, marketing and sourcing |
| | W S Trading Limited | Hong Kong | Ordinary HK$1,000,000 | 100 | Export trading |
| | Whalen Limited | Hong Kong | Ordinary HK$62,000,000 | 100 | Design and marketing |
| (1) | Whalen LLC | U.S.A. | Capital contribution US$1 | 100 | Wholesaling |
| | Wilson Textile Limited | Hong Kong | Ordinary HK$1 | 100 | Export trading |

## 41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

**NOTE:**

*(1) 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.*

| | | 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$3,346,056 | 30 | Fireworks distribution |
| # | Marshall Fireworks, Inc. | U.S.A. | Common stock US$10,000 | 30 | Convenience and store |
| # | Ningbo Penavico-CCL International Freight Forwarding Co., Ltd. | The People's Republic of China | US$1,000,000 | 40 | Provision of freight forwarders services |
| # | Winco Fireworks International, LLC | U.S.A. | Capital contribution US$10,302,419 | 30 | Wholesaling |
| # | Winco Fireworks Mississippi, LLC | U.S.A. | Capital contribution US$353,800 | 30 | Wholesaling |
| # | Winco of Tennessee, LLC | U.S.A. | Capital contribution US$350,015 | 30 | Fireworks wholesaling and retailing |
| ***Note*** | **Principal Joint Venture** | | | | |
| * | Red Sun Company Limited | The People's Republic of China | RMB30,000,000 | 20 | Domestic and export trading |

# *The associated companies are not audited by PricewaterhouseCoopers.*

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

Although the Group owns less than half of the equity interests in Red Sun Company Limited, it is able to exercise joint control by virtue of an agreement with other investors.

The above table lists out the principal associated companies and joint venture of the Company as at 31 December 2016 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

# Ten-year financial summary

## Consolidated Profit and Loss Account

| | **2016 US$'000** | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 (Restated) | 2012 US$'000 | 2011 US$'000 | 2010 US$'000 | 2009 US$'000 | 2008 US$'000 | 2007 US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Turnover | **16,760,632** | 18,830,835 | 19,288,499 | 19,025,512 | 20,221,806 | 20,030,271 | 15,912,201 | 13,394,741 | 14,195,143 | 11,853,840 |
| **Core Operating Profit** | **411,998** | 512,424 | 604,143 | 737,094 | 511,173 | 882,056 | 725,138 | 511,552 | 395,392 | 408,539 |
| **Operating Profit** | **380,205** | 594,985 | 723,625 | 811,726 | 790,703 | 879,937 | 679,318 | 497,373 | 390,310 | 461,545 |
| Interest income | **16,324** | 9,761 | 6,984 | 9,177 | 20,385 | 19,490 | 13,567 | 11,636 | 14,455 | 26,691 |
| Interest expenses | **(91,496)** | (99,541) | (105,179) | (107,575) | (135,109) | (128,594) | (98,443) | (47,706) | (61,561) | (64,059) |
| Share of profits less losses of associated companies and joint venture | **1,748** | 1,570 | 1,373 | 442 | 638 | 1,231 | 1,850 | 998 | 794 | 634 |
| Profit before taxation | **306,781** | 506,775 | 626,803 | 713,770 | 676,617 | 772,064 | 596,292 | 462,301 | 343,998 | 424,811 |
| Taxation | **(48,521)** | (57,890) | (59,035) | (72,011) | (54,053) | (90,660) | (47,525) | (30,798) | (33,269) | (32,379) |
| Profit/(loss) for the year | | | | | | | | | | |
| Continuing Operations *(Note 1)* | **258,260** | 448,885 | 567,768 | 641,759 | | | | | | |
| Discontinued Operations *(Note 1)* | **–** | – | (98,122) | 113,528 | | | | | | |
| Net profit for the year | **258,260** | 448,885 | 469,646 | 755,287 | 622,564 | 681,404 | 548,767 | 431,503 | 310,729 | 392,432 |
| **Attributable To:** | | | | | | | | | | |
| Shareholders of the Company | **223,146** | 421,046 | 441,276 | 725,337 | 617,416 | 681,229 | 548,491 | 431,937 | 310,505 | 392,312 |
| Holders of perpetual capital securities | **35,687** | 30,000 | 30,000 | 30,000 | 4,415 | – | – | – | – | – |
| Non-controlling interests | **(573)** | (2,161) | (1,630) | (50) | 733 | 175 | 276 | (434) | 224 | 120 |
| | **258,260** | 448,885 | 469,646 | 755,287 | 622,564 | 681,404 | 548,767 | 431,503 | 310,729 | 392,432 |
| **Earnings Per Share (HK Cents) *(Note 2)*** | | | | | | | | | | |
| Basic | **20.7** | 39.1 | 50.3[3] | 57.1[3] | 58.1 | 65.8 | 55.9 | 45.5 | 34.6 | 44.8 |
| equivalent to (US cents) | **2.67** | 5.04 | 6.46[3] | 7.32[3] | 7.45 | 8.43 | 7.17 | 5.83 | 4.44 | 5.74 |
| **Dividend Per Share** | | | | | | | | | | |
| **(HK Cents) *(Note 4)*** | **23.0** | 28.0 | 34.0 | 41.5[4] | 31.0 | 53.0 | 45.0 | 37.5 | 28.5 | 35.5 |
| equivalent to (US cents) | **2.96** | 3.61 | 4.36 | 5.32[4] | 3.97 | 6.79 | 5.77 | 4.81 | 3.65 | 4.55 |
| **Special Dividend Per Share** | | | | | | | | | | |
| **(HK Cents)** | **–** | – | 7.0 | – | – | – | – | – | – | – |
| equivalent to (US cents) | **–** | – | 0.90 | – | – | – | – | – | – | – |

**NOTES:**

(1) *The spin-off of Global Brands Group was completed on 8 July 2014. The financial results for the Global Brands Group for the period ended 8 July 2014 were presented as loss from Discontinued Operations on net basis. Comparatives for the year ended 31 December 2013 have been restated accordingly. The financial results prior to 2013 have not been restated.*

(2) *Adjusted for the effect of 1-for-10 Bonus Issue in May 2006 and Share Subdivision in May 2011.*

(3) *Based on earnings of Continuing Operations of the Group.*

(4) *Restated 2013 dividend per share based on pro rata share of core operating profit for Li & Fung excluding Global Brands Group. Actual 2013 interim and final year dividend per share with Global Brands Group on a consolidated basis were 15 HK cents and 34 HK cents, respectively.*

## Consolidated Balance Sheet

| | **2016 US$'000** | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 | 2012 US$'000 | 2011 US$'000 | 2010 US$'000 | 2009 US$'000 | 2008 US$'000 | 2007 US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | **3,896,973** | 4,266,863 | 4,349,083 | 7,608,556 | 7,058,406 | 6,525,999 | 4,882,166 | 2,333,657 | 1,872,068 | 1,458,287 |
| Property, plant and equipment | **221,550** | 241,626 | 244,907 | 439,599 | 418,624 | 325,432 | 309,186 | 160,988 | 164,495 | 144,872 |
| Other non-current assets | **59,933** | 78,923 | 58,160 | 119,558 | 160,930 | 120,195 | 127,456 | 115,133 | 23,023 | 30,751 |
| Current assets | **3,514,428** | 3,345,687 | 3,824,872 | 4,297,740 | 4,379,969 | 3,951,571 | 4,177,788 | 2,757,963 | 2,752,051 | 2,444,428 |
| Current liabilities | **3,278,479** | 3,339,181 | 3,701,518 | 4,082,124 | 3,873,938 | 3,664,820 | 3,317,362 | 2,227,923 | 2,288,234 | 2,095,649 |
| Net current assets | **235,949** | 6,506 | 123,354 | 215,616 | 506,031 | 286,751 | 860,426 | 530,040 | 463,817 | 348,779 |
| | **4,414,405** | 4,593,918 | 4,775,504 | 8,383,329 | 8,143,991 | 7,258,377 | 6,179,234 | 3,139,818 | 2,523,403 | 1,982,689 |
| Financed by: | | | | | | | | | | |
| Share capital | **13,487** | 13,487 | 13,398 | 13,398 | 13,396 | 12,987 | 12,899 | 12,103 | 11,648 | 11,060 |
| Holders of perpetual capital securities | **1,158,687** | 503,000 | 503,000 | 503,000 | 504,415 | – | – | – | – | – |
| Reserves | **2,310,974** | 2,493,679 | 2,593,680 | 5,033,287 | 4,619,509 | 3,918,012 | 3,611,572 | 2,252,878 | 1,696,432 | 1,245,982 |
| Shareholders' funds | **3,483,148** | 3,010,166 | 3,110,078 | 5,549,685 | 5,137,320 | 3,930,999 | 3,624,471 | 2,264,981 | 1,708,080 | 1,257,042 |
| Other non-current liabilities | **931,257** | 1,583,752 | 1,665,426 | 2,833,644 | 3,006,671 | 3,327,378 | 2,554,763 | 874,837 | 815,323 | 725,647 |
| | **4,414,405** | 4,593,918 | 4,775,504 | 8,383,329 | 8,143,991 | 7,258,377 | 6,179,234 | 3,139,818 | 2,523,403 | 1,982,689 |

# Glossary

In this Report, unless otherwise specified the following glossary applies.

| | |
|---|---|
| **2003 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 which expired on 11 May 2013 |
| **2014 Option Scheme** | the share option scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014 |
| **Adoption Date** | The date of adoption of the Share Award Scheme by the Shareholders at the annual general meeting of the Company held on 21 May 2015 |
| **associate(s), chief executive(s), connected person(s), substantial shareholder(s)** | each has the meaning as described in the Listing Rules |
| **Award Shares** | the Shares granted under the Share Award Scheme to an eligible person(s) approved for participation in the Share Award Scheme |
| **Board** | the board of Directors of the Company |
| **China** | the People's Republic of China |
| **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)** | a director(s) of the Company |
| **FH (1937)** | Fung Holdings (1937) Limited, a company incorporated in Hong Kong, which is a substantial shareholder of the Company |
| **Fung Distribution** | Fung Distribution International Limited, a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of FH (1937) |
| **Global Brands** | Global Brands Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange |
| **Global Brands Group** | Global Brands and its subsidiaries |
| **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 the People's Republic of China |
| **HSBC Trustee** | HSBC Trustee (C.I.) Limited, acting in its capacity as the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King |
| **King Lun** | King Lun Holdings Limited, a company incorporated in the British Virgin Islands owned 50% by HSBC Trustee and 50% by 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 |
| **Report** | the annual report of the Company for the year ended 31 December 2016 |
| **SFO** | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| **Share(s)** | ordinary share(s) of HK$0.0125 each in the share capital of the Company |
| **Shareholder(s)** | holder(s) of the Share(s) |
| **Share Award Scheme** | the share award scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015 |
| **Share Option(s)** | the outstanding option(s) granted under the 2003 Option Scheme and/or 2014 Option Scheme |
| **Stock Exchange** | The Stock Exchange of Hong Kong Limited |
| **US$** | United States dollar(s), the lawful currency of the United States of America |

# Corporate information

## Executive Directors

William Fung Kwok Lun
Spencer Theodore Fung
Marc Robert Compagnon

## Non-executive Directors

Victor Fung Kwok King
Paul Edward Selway-Swift*
Allan Wong Chi Yun*
Margaret Leung Ko May Yee*
Martin Tang Yue Nien*

** Independent Non-executive Directors*

## Chief Financial Officer

Edward Lam Sung Lai

## Group Chief Compliance and Risk Management Officer

Jason Yeung Chi Wai

## 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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TEAM #1
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888 CHEUNG SHA WAN ROAD
KOWLOON, HONG KONG
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