CREATING THE SUPPLY CHAIN OF THE FUTURE

Annual Report 2017

LI & FUNG LIMITED

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


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11/7/2017




Contents

Please scan the QR code
to read our report.

Our 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 aim is to decrease lead times and increase speed to market for our customers. We will 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.

Please scan the QR code to learn about our journey to speed.

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.

Please scan the QR code to learn how we are innovating at Li & Fung.

Customer Portal

Design Considerations
(Blockchain, AR / VR, Machine Learning / AI, IoT)

Data Provider
(Financial Service Data, Government Import Data, Weather and Traffic Data, Industry Product Data)

Digitalization

Digitalization of the entire supply chain will drive speed and innovation. By digitizing key aspects of the supply chain from product development and sampling to raw materials management and costing, to the final creation and delivery of products, we are creating an end-to-end platform that will make the customer and vendor engagement process more seamless, efficient and cost-effective, enabling us to deliver data-driven insights and customized services.

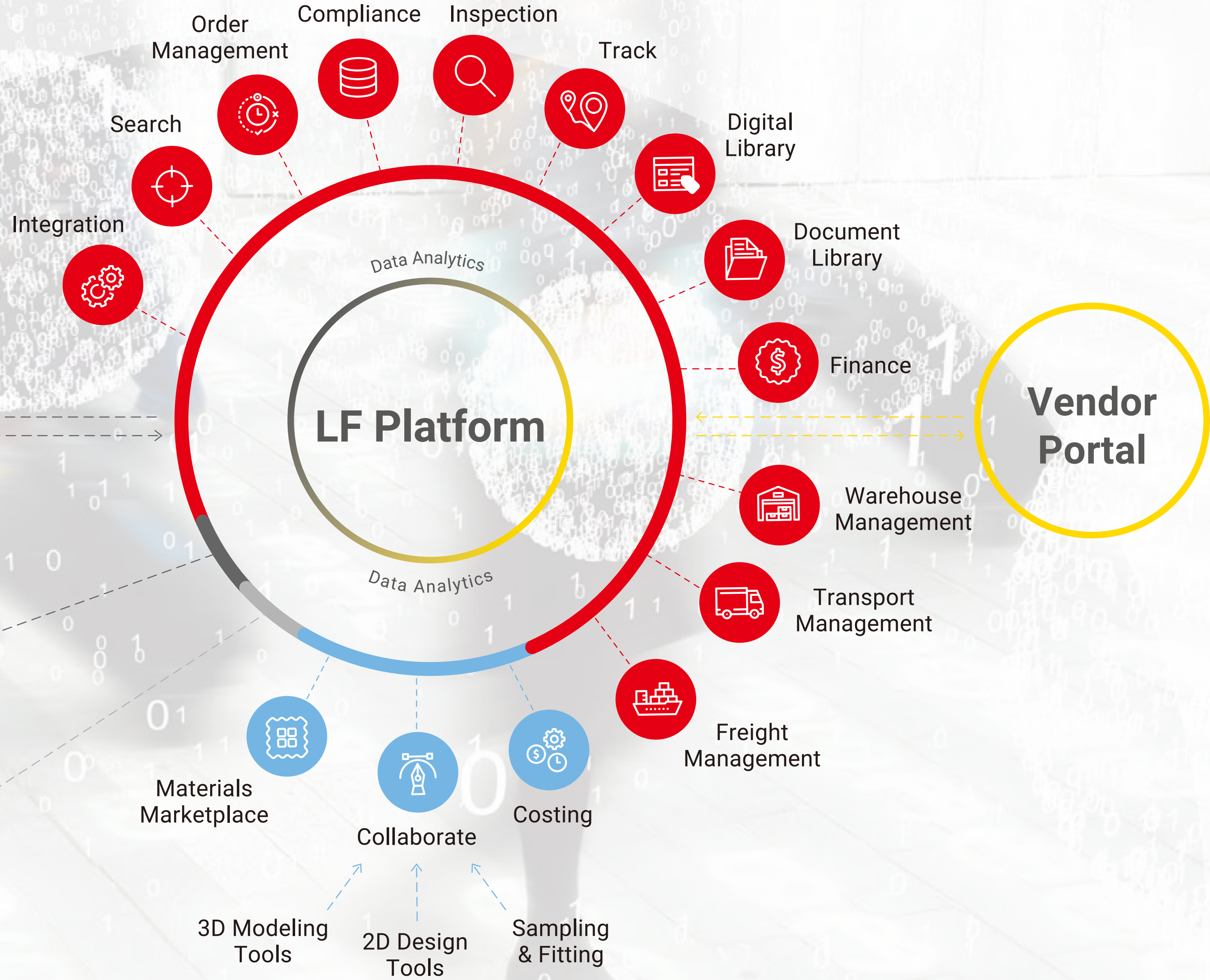
Please scan the QR code to learn how we are creating the future of supply chains.

Our Values

Across our business, three core values – entrepreneurship, being humble and the importance of family – form the basis of our culture, business strategies and brand, bringing us together and guiding what we do.

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 planning process and is integrated into our three-year plans. Our role is to innovate, collaborate and support our partners in furthering sustainability performance across the supply chain.

Our **Purpose**

We aim to make a difference along the supply chain and in the communities where we live and work, supported by the Li & Fung Foundation, to improve the lives of a billion people. We harness our strengths, global networks, knowledge and our people, to effect scalable, sustainable change by activating communities, convening our partners along the supply chain and focusing on innovative solutions for exponential impact.

A Letter from Our Chairman

The present Three-Year Plan is one of the most important in our history and we developed a new business model to take advantage of the new digital world and create the supply chain of the future.

Dear Shareholders,

In the last decade, all businesses around the world have faced unprecedented change and disruption from technology and geopolitical turmoil. In many industries, companies need to create new business models and reinvent themselves. Li & Fung has a long history of embedding an institutionalized mechanism for reinvention in our three-year planning process. We take a zero based approach in planning our business every three years and rather than waiting until changes are upon us, we want to anticipate changes and have a system of governance and management that facilitates this. The present Three-Year Plan (2017-2019) is one of the most important in our history and we developed a new business model to take advantage of the new digital world and create the supply chain of the future for the global movement of consumer goods. This is the first year of our new Three-Year Plan and I am happy to report that we are firmly on track to meet our goals.

Uneven Global Economic Growth

In the world's biggest economy and our biggest market, the US unemployment rate has been declining steadily and recently reached the lowest level in 17 years. Some of our customers in the retail sector saw the strongest holiday sales in more than a decade. This momentum has given the Fed higher confidence to unwind quantitative easing at a steady pace. While the US is seeing some economic green shoots, economic recovery is less visible in Europe. Asia, led by China, is seeing healthy economic trends with the fruits of decades of globalization turning into large middle class consumption and growing markets. I believe Asia will be the greatest winner in the economic growth story of the future.

US Tax Reform to Boost Economy and Consumption

Our customers in the US should benefit additionally from the Tax Cuts and Jobs Act. The National Retail Federation (NRF), which had been highly supportive of the tax reform and called its passing a major victory for retailers, estimates that savings from lower corporate tax bills can potentially translate to 500,000–1.5 million new jobs. We consider the US tax reform a positive development and expect stronger consumption to result from wage growth and the wealth effect.

International Relations and Trade Agreements

The world entered 2017 anticipating major shifts in the geopolitical sphere and trade relationships as a new US president took office. Economic and political relationships have always been intertwined. As of March 2018, US, Canada and Mexico already had multiple rounds of talks on changes to the North American Free Trade Agreement (NAFTA). Quick resolution seems unlikely given the election cycles in both the US and Mexico.

Sino-US economic relations continue to be rocky. While the two countries collaborate on a wide range of matters such as security in the Korean Peninsula, differences also manifest themselves in potential trade frictions. The recent announcement by the US on potential punitive duties on Chinese exports to America is of grave concern to the whole world and to Li & Fung in particular. While so far, the target list of potential products does not include our main product categories, we will be monitoring changes in the landscape and have taken steps to prepare our customers and suppliers for any potential fallout. The fact that we have one of the largest sourcing networks in the world should allow us to cope with any potential production dislocation in this Sino-US conflict. However, we are hopeful that the two powers will be able to resolve their differences without triggering a trade war.

The Trans-Pacific Partnership (TPP), which experienced a setback last year as the US withdrew, evolved into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and regained momentum. The new pact elicits renewed interest not only from the US but also from the UK, which is exploring different trade pacts as Brexit looms. The development reaffirms our belief that protectionist sentiment is transient and free trade will eventually prevail.

The Death of Regular Commerce?

The past few years have seen the lopsided emphasis on the loss of market share by traditional brick-and-mortar retailers to the online market. However, by today, all the players are acutely aware of the impact and the need to use online data, communications and technology to service the consumer. The demarcation between brick-and-mortar and online retailers is fast becoming blurred as the concepts of omni-channel and O-to-O take hold. The two formats complement each other and it seems clear that consumers want both. The only question is just a matter of the varying split between online and offline channels for retailers and brands depending on their product lines. In fact, in recent years, we already saw key online retailers acquiring offline chains or building physical stores to enlarge their footprints and capture a broader customer base. I believe players with sound omni-channel strategies and the strong financial strength to implement this strategy will be the ultimate winners.

We have one of the largest sourcing networks in the world to cope with any potential production dislocation in this Sino-US conflict.

The Supply Chain of the Future

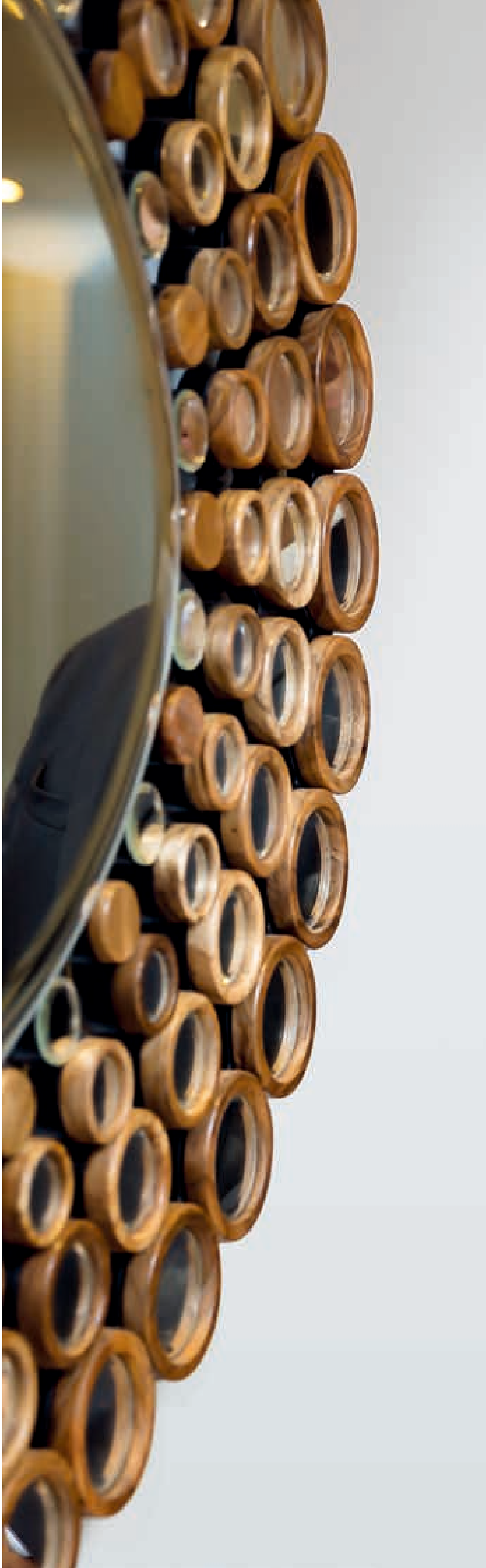
By the end of this decade, we aim to digitalize major parts of the supply chain which is currently highly analog. A digitalized supply chain will be the prerequisite to work with the already highly digitized consumer space in terms of speed and inventory position. Also, a digitalized supply chain is key to data-aggregation which will enable advanced analytics for gauging and satisfying consumer demand. We are very pleased with our early successes in digitalization which is rapidly gaining traction with our customers and suppliers and I am grateful to our colleagues for their dedication and hard work in making the supply chain of the future a reality so quickly.

Yours sincerely,

William Fung Kwok Lun
Group Chairman

A Letter from Our CEO

2017 was the first year of our Three-Year Plan and I am happy to report that we are on track.



Dear Shareholders,

2017 was the first year of our Three-Year Plan and I am happy to report that we are on track. A year ago, we outlined our vision 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. We aimed to achieve this by focusing on speed, innovation, and digitalization of our business. In the past twelve months, we have met our financial targets and executed our strategic goals. We have seen the beginning of a three-year digital transformation that is changing the mindset of our people and our partners. Our vision is to build a digital platform that includes all our ecosystem partners and enables them to benefit from the convening power of a network that reaches over US$2 trillion of retail sales. We are excited to have made a strong start to this journey.

2017 was another transformative year in the retail industry. While retail sales around the world are healthy overall with a 3.3% growth globally, the retail environment continues to morph at the fastest pace we have ever seen. The fundamental beliefs we upheld are now changing. Most people agree that the future business model for retail will be omni-channel. We have seen that most brick-and-mortar retailers are becoming fully omni-channel ready, and many pure e-commerce companies are now establishing a sizable brick-and-mortar presence – the two will eventually merge into a new retail format that will become the norm. Meanwhile, there was a record number of store closures in 2017, and 2018 is shaping up to be even worse. There was also a high number of retail bankruptcies, and at the time of this letter, we are already seeing an unprecedented number of bankruptcies in the first few months of 2018. Almost all retailers are now focusing on speeding up their operations to meet the demands of their end-consumers who are moving faster than ever before. As a result, a handful of those who have successfully introduced greater speed have seen strong recovery and growth towards the second half of 2017, allowing them to improve their margin and reduce their markdown and inventory. Overall, global retail is still strong and the rumored retail apocalypse did not materialize.

Technology also advanced in leaps and bounds with the growing importance of crypto currency, blockchain and artificial intelligence dominating the headlines. Increasingly many traditional companies are catching up fast to the technology curve and starting to deploy more innovative solutions in their business. Most retailers agree that technology is here to stay and it's now the story of innovate or die. The upstream value chain, however, is still slow to adapt to the change and we are now aiming to help all our partners move up the technology curve to enable them to become more digital. I believe that the future belongs to those who firmly grasp the fundamentals of the current business model and effectively apply new technologies in their businesses. While Li & Fung is a 111-year old company with deep-rooted values, we aim to stay at the forefront of technology and innovation in this exponential world.

In 2017, I am happy to report that we have achieved all our strategic goals. Speed, innovation and digitalization is the foundation of our Three-Year Plan. Over the past 12 months, we have been able to increase the speed of our customers' supply chain and reduce, on average, 20% of the lead time from design to store, resulting in a double-digit increase in sales and a double-digit decrease in mark downs and inventory for our customers. We have been working with various partners to explore new and innovative business models which can become the new normal. For digitalization, we focused on the 3D Virtual Design process and have successfully grown this area to become one of the leaders in this space, with one of the largest and most geographically-distributed 3D Virtual Design teams in the industry. We are now converting more processes from analog to digital and are excited about the prospect of linking these digital modules together to start forming the end-to-end digital supply chain platform. Internally, we have also increased the productivity of our workforce and as a result achieved a significant cost reduction in the process.

Financially, we hit our 2017 target and we are on track for the first year of our Three-Year Plan. It is one of the first times we have achieved this, and I must congratulate and thank all our people for the hard work that they have put in this year. On a like-for-like basis, we have stabilized our turnover reduction, increased our total margin percentage by 30 basis points, reduced our operating cost by 5.8%, and increased our core operating profit (COP) by 13.3%, up 40 basis points as a percentage of turnover. Our core business of Supply Chain Solutions had a solid year with a 21.2% increase in COP, and our logistics business continues its multi-year, double-digit growth with a 23.8% increase in COP. Logistics continues to outshine and is taking more market share as a result of strong growth in e-commerce logistics, entry into the new markets of India and Vietnam, and entry into a new product category, namely electronics. This is no doubt a solid start to our Three-Year Plan. However, there remains significant pressure on our business as the industry transforms, and we remain 100% focused on delivering our goals.

In December of 2017, we announced the strategic divestment of three product verticals for US$1.1 billion. This is a continuation of our exercise of simplifying the company and focusing more on our core business and creating a digital supply chain, following the spin-off of Global Brands in 2014 and the divestment of our Asia consumer and healthcare distribution business in 2016. The transaction was priced at over 14x EV/EBIT multiple, which represents good value for a business in decline, and was approved with 99.94% of the independent shareholder votes. We expect the transaction to close in the first half of this year and the Board has declared a conditional special dividend of US$520 million and the remaining US$580 million will be used to further strengthen our capital structure and allow us to invest for this Three-Year Plan.

While Li & Fung is a 111-year old company with deep-rooted values, we aim to stay at the forefront of technology and innovation in this exponential world.

I would like to take this opportunity to thank all our colleagues and partners for the support that you have given the company as we embark on creating the supply chain of the future. One year ago, this felt like a concept of a future that was far away. Yet, only one year into the journey, I am excited to be able to show some real progress and see different parts of our journey become a reality. We hope that all of you can continue to support us as we attempt to create a future that will fundamentally change the way we operate in this industry.

Yours sincerely,

Spencer Fung
Group CEO

Summary of the Year

2017 GROUP OVERVIEW (CONTINUING OPERATIONS)

Turnover

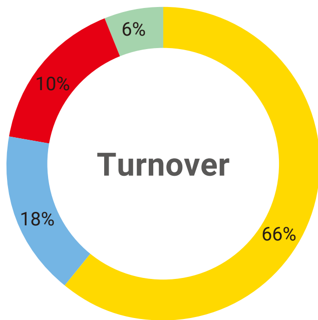
US$13,534M

Total margin

US$1,386M

Core operating profit

US$356M



Group geographical market turnover

US$13,534M

USA Europe Asia Rest of World

Earnings per share (basic)

15.8 HK cents

2.04 US cents

Dividends per share (total)*

60.6 HK cents

7.84 US cents

Operating cash flow

US$313M

Cash and bank balances

US$349M

Gearing ratio

13%

OUR SUPPLY CHAIN

Suppliers worldwide
15,000+

8,200+ suppliers

remain regularly active with order placements over a two-year period

Top five sourcing countries

China Vietnam Bangladesh

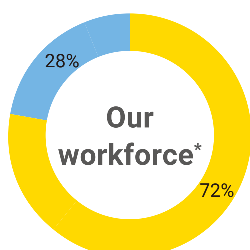
India Indonesia

OUR PEOPLE

53% **Female**

47% **Male**

43% **Of our management worldwide is female**



Services

Products

* Including Continuing Operations and Discontinued Operations.

Economies

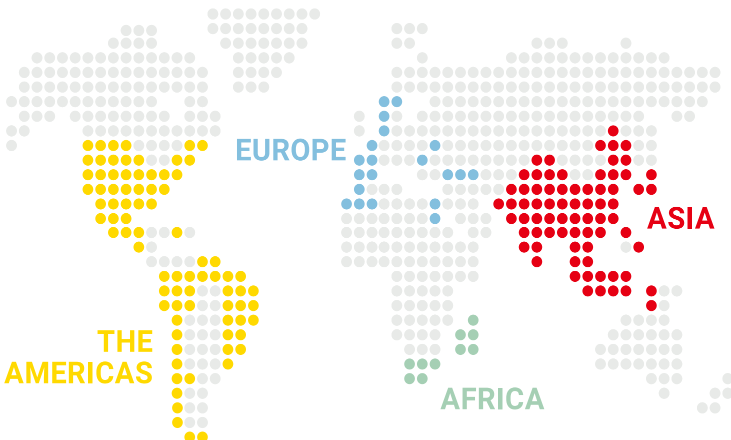
40+

Employees worldwide

17,371
(Continuing Operations)

3,951
(Discontinued Operations)

We operate an extensive global supply chain network in over 230 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

448
Activities

30,000+
Volunteer hours

21,400+
Working hours

8,700+
Non-working hours

17,000+ times
Our people volunteered

84 locations in 25 countries participated in community initiatives

OUR FOOTPRINT

11%
reduction in print volume in Hong Kong

13 LEED/BREEAM sustainable building certifications

RECOGNITION

THE GLOBAL COMPACT WE SUPPORT

FTSE4Good

Member 2017/2018 STOXX ESG LEADERS INDICES

Hang Seng Corporate Sustainability Index Series Member 2017-2018

15 years+ 商界展關懷 caringcompany

Our Performance

For our Three-Year Plan (2017-2019),
we are diligently executing
our key themes of speed, innovation
and digitalization to create
the supply chain of the future.

Our Performance

We reported positive 2017 results, highlighting that the Three-Year Plan with the goal of creating the supply chain of the future had a strong start in 2017 and is on track to deliver its financial and strategic goals.

Results Overview

Three-Year Plan (2017–2019) on Track

Our new Three-Year Plan got off a strong start in 2017 and we are on track to meet our financial targets and strategic goals. While our turnover continued to face pressure from input price deflation as well as the ongoing destocking and promotional activities among our brand and retail customers, we have seen early signs of stabilization due to our enhanced service offerings. Many of our customers have begun to embrace our speed and digital supply chain model, realizing tangible improvements in their inventory management as well as their sell-through and mark-down rates. We are confident that this trend will continue to attract new customers and increase our market share with existing ones. Meanwhile, our Logistics business maintained strong momentum in organic growth, which was largely driven by e-logistics services, deeper penetration of our core customers and entry to new markets.

Operating with higher productivity, better efficiency and strategic cost control, we were able to grow our profit margin percentage and profitability in a tough operating environment. We will continue to drive productivity with process improvements under our digitalized sourcing platform.

Speed Model and Digitalization

In an increasingly digitalized world, speed has become the new currency for brands and retailers. With the launch of our new Three-Year Plan, we embarked on our journey to create the supply chain of the future – an end-to-end digital supply chain augmented by data analytics that helps our customers optimize their ordering decisions and react to market changes with enhanced speed.

As part of our plan, we are converting the analog components of the supply chain into various digital modules such as 3D virtual design in product development, order tracking, and a raw materials platform. Over this Three-Year Plan, we have earmarked US$150 million for spending on digitalization, and these initiatives have been well-received by our customers. We are on track to deliver a fully-integrated digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of our future service offerings, enabling Li & Fung to provide better and faster supply chain services beyond the traditional value-added services.

Strategic Initiatives

In order to strengthen our competitive position further and identify new emerging opportunities, we are focusing on three strategic initiatives as part of this Three-Year Plan. The expanded business development team is spearheading new customer wins and driving market share gain with core customers by orchestrating coordinated sales efforts across various teams. The corporate development team is leveraging our convening power to bring together diverse players from across the supply chain to create an ecosystem that benefits all stakeholders. The data analytics team is generating new insights from our growing data universe so we can design differentiated and timely products for our customers.

Repayment of US$500 Million Bond

With proceeds from the divestment of the Asia consumer and healthcare distribution business and the issuance of US$650 million of perpetual capital securities in 2016, we started 2017 with US$985 million of cash on our balance sheet. We further optimized our capital structure by using our cash on hand to repay the US$500 million bond in May 2017.

Reorganization

At the beginning of 2017, we reorganized our business into two segments, namely Services and Products, to support our new strategy. The Services segment consists of the Supply Chain Solutions and Logistics businesses. The synergistic combination of our Supply Chain Solutions business and Logistics business not only provides end-to-end supply chain solutions to our customers, but also facilitates cross-selling between the two businesses.

The Products segment consisted of the Onshore Wholesale business and three Product Verticals (furniture, beauty and sweaters), which represented our principal-to-principal business and were previously under the Trading network. This new organizational structure was intended to provide the Products segment with a higher level of autonomy to act with greater agility.

Strategic Divestment of Product Verticals and Special Dividend

In December 2017, we announced the strategic divestment of the three Product Verticals, furniture, beauty and sweaters. The strategic divestment will allow the Company to set the foundation for a more simplified organization with greater agility and focus on its core competencies, and enable our senior management team to focus resources on executing the Three-Year Plan. The Product Verticals' growth strategy in each product category necessitates further expansion upstream and downstream, requiring capital investment and management attention, which we believe is best achieved outside the Company and our current strategic direction.

The strategic divestment is expected to bring in an extra US$1.1 billion of cash, of which US$520 million will be distributed as special dividend while the balance will be retained to enhance the Group's financial flexibility. The transaction received approval from our Independent Shareholders on 31 January 2018 and is targeted to close during the first half of 2018, subject to regulatory approval.

Given the strategic divestment, the three Product Verticals are now classified as Discontinued Operations. Our financial results and management discussion and analysis will mainly focus on our Continuing Operations, including Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The Discontinued Operations of the three Product Verticals are being presented separately in the consolidated profit and loss account as a single line item.

Results

The following financial results summary mainly focuses on our Continuing Operations, including Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and presented separately as a single line item.

	Continuing Operations[1]					
	Like-for-like[2]			Reported		
	2017 US$m	2016 US$m (Restated)[3]	Change %	**2017 US$m**	2016 US$m (Restated)[3]	Change %
Turnover	**13,534**	14,185	(4.6%)	**13,534**	14,751	(8.3%)
Total Margin	**1,386**	1,408	(1.5%)	**1,386**	1,495	(7.3%)
As % of Turnover	***10.2%***	*9.9%*		***10.2%***	*10.1%*	
Operating Costs	**1,030**	1,094	(5.8%)	**1,030**	1,177	(12.4%)
As % of Turnover	***7.6%***	*7.7%*		***7.6%***	*8.0%*	
Core Operating Profit	**356**	314	+13.3%	**356**	318	+11.8%
As % of Turnover	***2.6%***	*2.2%*		***2.6%***	*2.2%*	
Profit for the Year						
– **Continuing Operations**				**234**	195	+19.7%
– Discontinued Operations				**(543)**	61	
– Total				**(309)**	256	
Profit Attributable to Shareholders[4]						
– **Continuing Operations**				**170**	160	+6.5%
– Discontinued Operations				**(545)**	61	
– Total				**(375)**	221	

1. Group results with Discontinued Operations separately presented given the strategic divestment of three Product Verticals announced in 2017
2. Excluding the Asia consumer and healthcare distribution business, which was divested in June 2016
3. 2016 comparatives restated with adoption of New Accounting Standard HKFRS 15 (Note 1.1 to the financial statements)
4. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests

TURNOVER

Group Turnover, on a like-for-like basis, excluding the impact of the divestment of the Asia consumer and healthcare distribution business in 2016, decreased by 4.6% to US$13.5 billion. This was mainly due to customers' destocking and price deflation. Turnover was also negatively impacted by several customers who experienced bankruptcies last year. On a reported basis, turnover decreased by 8.3%. The rate of decline was lower than that in 2016 as the drop in the turnover of our Supply Chain Solutions business further narrowed.

Although retail consumption gradually improved towards the end of 2017, brands and retail customers continued to face disruptions from online retailers. Our customers responded by rationalizing physical store portfolios, continuing to destock, exercising tighter inventory control and launching their own online strategies.

These developments presented both opportunities and challenges. While conservative procurement by our customers led to smaller orders with shorter lead times – and hence lowered our turnover, it also provided growth opportunity for our speed model. Customers who adopted the speed model have been achieving better sell-through and reduced mark-down rates. In spite of the short-term pressure on our turnover, the speed model is helping us cultivate stickier, longer-lasting customer relationships in the medium term.

Supply Chain Solutions business, Logistics business and Onshore Wholesale business in the Americas, Europe, and Asia, accounted for 81%, 8% and 11% of Group turnover respectively.

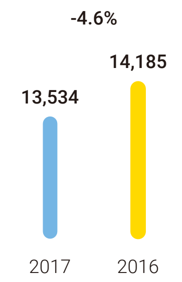
Logistics business turnover increased by 13.3% driven by strong demand for in-country logistics services. The growth momentum of the Logistics business continued to be largely driven by e-logistics, deeper penetration of our core customers and entry to new markets.

Turnover at Supply Chain Solutions business and Onshore Wholesale business decreased by 6.2% and 2.4% respectively primarily due to destocking and input price deflation. Our Onshore Wholesale business continued to experience turnover decline due to anemic consumer sentiment and an unstable economic environment particularly in Europe as well as short-term customer challenges in the US.

The Products segment has been restated to include only the Onshore Wholesale business in the Americas, Europe and Asia to reflect the strategic divestment of the Product Verticals.

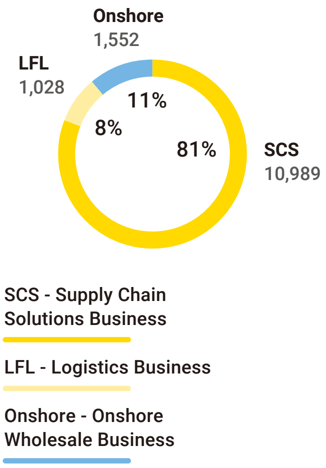
Turnover

US$m



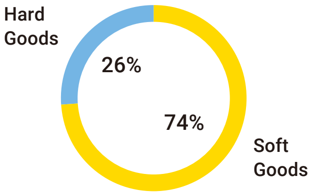
2017 Turnover Breakdown by Segments*

US$m



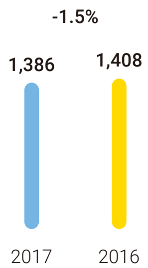
* Before inter-segment elimination

Group Product Mix
(Excluding Logistics Business)



Excluding the Logistics business, the Continuing Operations derived 74% and 26% of 2017 turnover from soft goods and hard goods respectively, compared with 71% for soft goods and 29% hard goods in 2016.

Total Margin
US$m

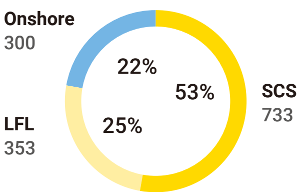


Total Margin Percentage	
10.2%	9.9%
+0.3 percentage point	

TOTAL MARGIN

On a like-for-like basis, excluding the impact of the divestment of the Asia consumer and healthcare distribution business in 2016, total margin decreased by 1.5% to US$1,386 million. On a reported basis, total margin decreased by 7.3%. Total margin percentage improved by 0.3 percentage point on a like-for-like basis to 10.2% due to the increased contribution from the higher-margin Logistics business.

2017 Total Margin Breakdown by Segments
US$m



SCS - Supply Chain Solutions Business

LFL - Logistics Business

Onshore - Onshore Wholesale Business

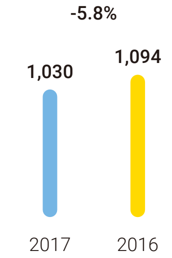
Supply Chain Solutions business, Logistics business and Onshore Wholesale business accounted for 53%, 25% and 22% of the Continuing Operations' total margin, respectively, with the increased total margin in Logistics Business (13.1%) offset by the reduction in total margin in both Supply Chain Solutions business (5.5%) and Onshore Wholesale business (6.2%). This was due to the reduction in turnover and continued margin pressure in our Onshore Wholesale business.

OPERATING COSTS

On a like-for-like basis, excluding the impact of the divestment of the Asia consumer and healthcare distribution business in 2016, operating costs decreased by 5.8%. On a reported basis, operating costs decreased by 12.4% to US$1,030 million. The decrease primarily resulted from our sustained efforts to enhance operating efficiency and productivity through the use of technology and process improvement.

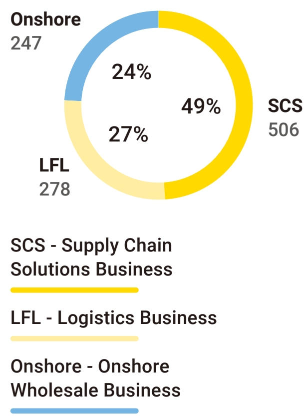
Supply Chain Solutions business, Onshore Wholesale business and Logistics business accounted for 49%, 24% and 27% of operating costs. The operating costs of Supply Chain Solutions business and Onshore Wholesale business decreased by 14.0% and 3.0% respectively as driven by on-going productivity improvement and process streamlining. Operating costs for Logistics business increased by 10.6% as a result of continued business expansion.

Operating Costs
US$m



As a percentage of turnover	
7.6%	7.7%
-0.1 percentage point	

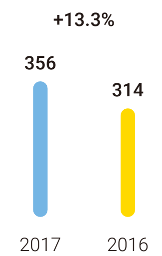
2017 Operating Costs Breakdown by Segments
US$m



CORE OPERATING PROFIT

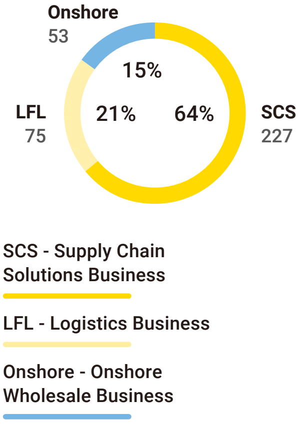
On a like-for-like basis, excluding the impact of the divestment of the Asia consumer and healthcare distribution business in 2016, core operating profit (COP) increased by 13.3% to US$356 million. On a reported basis, core operating profit increased by 11.8%. The increase in COP was largely due to higher total margin percentage and lower operating costs. Both the Services and Products segments achieved reduction in operating costs through productivity gains and strategic cost control. As a result, COP margin increased by 0.4 percentage point to 2.6%.

COP
US$m



COP Margin	
2.6%	2.2%
+0.4 percentage point	

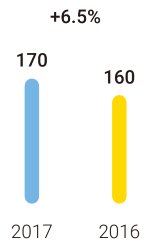
2017 COP Breakdown by Segments
US$m



In 2017, Supply Chain Solutions business and Onshore Wholesale business respectively accounted for 64% and 15% the COP of the Continuing Operations, while Logistics business accounted for 21%.

COP for the Supply Chain Solutions business and Logistics business increased by 21.2% and 23.8% respectively while Onshore Wholesale business' COP decreased by 18.6%.

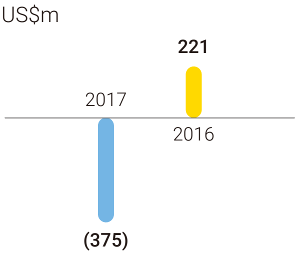
Net Profit Attributable to Shareholders
(Continuing Operations)
US$m



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

On a reported basis, net profit attributable to shareholders for Continuing Operations increased by 6.5% to US$170 million. Our net profit attributable to shareholders was impacted by the US$28 million increase in distribution related to the US$650 million in perpetual capital securities raised in 2016 as well as US$34 million in reorganization costs and write-off of legacy IT assets, which was offset by the US$31 million gain on remeasurement of consideration payable.

Net Profit Attributable to Shareholders
US$m



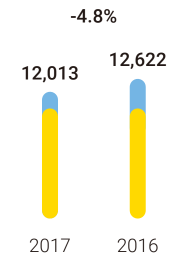
On a reported basis, the Group recorded a net loss of US$375 million attributable to shareholders for 2017 as compared to a net profit of US$221 million in 2016, as a result of the recognition of a one-time non-cash remeasurement loss for the Discontinued Operations of US$592 million in accordance with HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations, offset by US$47 million of net profit attributable to shareholders from Discontinued Operations. The above accounting losses have no impact on our future cash flow, or our future operational and financial performance. The strategic divestment will also trigger the realization of prior period foreign exchange non-cash translation losses in the Company's equity account at the time of closing in 2018. These non-cash translation losses of approximately US$78 million, based on financial position as at 31 December 2017, will be recorded in our 2018 financial results.

Services Segment

The Services segment is composed of Supply Chain Solutions business and Logistics business. We provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers.

Cross-selling between Supply Chain Solutions and Logistics businesses has enhanced business opportunities and further solidified our relationships with customers. In 2017, the Services segment as a whole delivered a 21.8% increase in core operating profit. This was largely due to stabilization in turnover and total margin, coupled with strategic cost reduction for Supply Chain Solutions business, together with an increase in turnover and total margin for Logistics business.

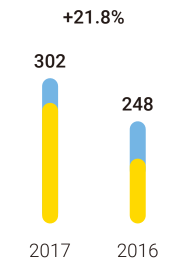
Services Segment Turnover
US$m



SCS

Logistics

COP
US$m



SCS

Logistics

Services – Supply Chain Solutions Business

Supply Chain Solutions business, which accounted for 81% of turnover of Continuing Operations, is the largest revenue generator for the Group. It offers strategic supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control for our brands and retail customers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs. We also converted our supplier base of more than 15,000 to a new customer base for services that can improve their operational efficiencies and compliance levels. Furthermore, we are on track to deliver a digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics. This will serve as the nucleus of our future service offerings enabling Li & Fung to provide better, faster supply chain services beyond the traditional sourcing services.

Supply Chain Solutions Business Results

	2017 US$m	2016 US$m	Change %
Turnover	**10,989**	11,718	(6.2%)
Total Margin	**733**	776	(5.5%)
As % of Turnover	***6.7%***	*6.6%*	
Operating Costs	**506**	588	(14.0%)
As % of Turnover	***4.6%***	*5.0%*	
Core Operating Profit	**227**	188	+21.2%
As % of Turnover	***2.1%***	*1.6%*	

In 2017, despite the continued destocking trend, Supply Chain Solutions business saw a stabilization in turnover with a reduced year-on-year decline. Soft goods remained the largest contributor, accounting for 75% of turnover. Deflationary pressure on input prices for soft goods remained at a low-single-digit percentage year on year. We continued to expand our customer base, especially in the off-price segments. Many of our customers have started to embrace our speed and digital supply chain model, realizing tangible improvements in their inventory management, sell-through and mark-down rates. This trend will continue to drive growth with existing customers and attract new ones.

New customer growth was particularly strong in the off-price sector in Europe, as evidenced by the 4.5% increase in Europe turnover despite weak consumer sentiment in the region. This largely offset pressure from retail store closures and the ongoing destocking trend in the US. Overall, profitability improved through effective cost control and a continued focus on enhanced productivity.

TURNOVER

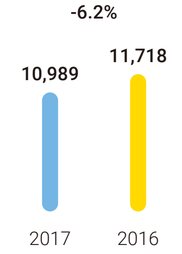
Turnover of our Supply Chain Solutions business decreased by 6.2% to US$11.0 billion. Faced with a weak consumer market and a volatile retail environment, customers remained conservative in their buying programs. In the US, the situation was exacerbated by a high number of store closures which led to even more cautious buying patterns.

We continued to experience mild deflationary pressure on soft goods, but input prices have largely stabilized. Although the high rate of destocking has lessened, the trend toward tighter inventory control has intensified as brands and retailers continued to show caution in light of ever-changing consumer buying patterns. Our customers have been placing smaller orders, replenishing more often but with very short lead times. As the leader in global supply chain management with decades of experience through many business cycles, we are well equipped to meet customers' requirements.

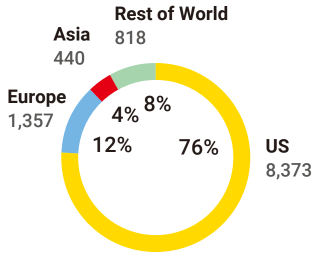
The US, Europe, Asia and Rest of World respectively accounted for 76%, 12%, 4% and 8% of Supply Chain Solutions business turnover in 2017.

Turnover of the business in the US and Rest of World decreased by 7.8% and 9.8% respectively. In Europe and Asia, we achieved 4.5% and 2.1% increase respectively in turnover, which was driven by new customer wins – especially in the off-price retail sector – despite the tough macro environment.

Supply Chain Solutions Business Turnover
US$m



2017 Geographical Market Turnover
US$m

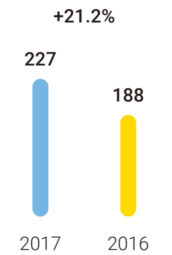


CORE OPERATING PROFIT

Core operating profit (COP) increased by 21.2% to US$227 million while core operating profit margin increased by 0.5 percentage point to 2.1%. This was driven by:

- A 5.5% decrease in total margin on reduced turnover and stable total margin percentage of 6.7%, and
- A 14.0% decrease in operating costs to US$506 million. Cost savings resulted from productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. In addition, effective credit risk management led to reduced provision in accounts receivable in 2017.

COP
US$m



COP Margin	
2.1%	1.6%
+0.5 percentage point	

Services – Logistics Business

Logistics business focuses on four core industry verticals: footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. It consists of two sub-segments, Asia-focused in-country logistics and global freight management.

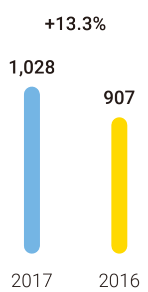
In-country logistics services include warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services. We currently operate approximately 23.7 million square feet of warehouse space across fast-growing markets in Asia. China, our largest market, continues to enjoy strong growth momentum driven by e-commerce. Our state-of-the-art distribution hub in Singapore, opened in 2016 and is one of the largest bonded warehouses in ASEAN, has achieved full utilization much earlier than anticipated. We are now looking to develop another built-to-suit facility in Singapore to support future growth. Following the full implementation of the new Oracle transport management system across all our operations, we are now focusing on aggressively increasing our transport market share by cross-selling to our existing warehousing customers as well as new standalone transport customers. Our focus on labor productivity has started to yield positive results; this combined with initiatives focusing on selective automation and data analytics will continue to impact our profitability favorably going forward. By developing strong partnership with strategic regional customers, we have effectively extended our footprint into the key markets of India and Vietnam, following our successful entry into Korea and Japan.

Global freight management offers cargo consolidation and deconsolidation, freight forwarding and customs clearance services. With more than 600,000 TEUs of shipping volume, we are one of the leading freight forwarders in China. We continue to invest in state-of-the-art information technology platforms to improve our service offering and enhance our productivity.

Logistics Business Results

	2017 US$m	2016 US$m	Change %
Turnover	**1,028**	907	+13.3%
Total Margin	**353**	312	+13.1%
As % of Turnover	***34.3%***	*34.3%*	
Operating Costs	**278**	251	+10.6%
As % of Turnover	***27.0%***	*27.7%*	
Core Operating Profit	**75**	61	+23.8%
As % of Turnover	***7.3%***	*6.7%*	

Logistics Business Turnover
US$m



TURNOVER

Turnover of our Logistics business increased by 13.3% to US$1,028 million driven entirely by organic growth. Our new business wins together with the robust growth of consumption in Asia have provided strong impetus to in-country logistics, in particular, e-logistics. Our continuing success in the new markets of Japan and Korea, our recent expansion into India and Vietnam as well as our strong growth in China, Taiwan and Thailand have enabled us to further expand our market share.

In-country logistics and global freight management accounted for 60% and 40% of the turnover of the Logistics business.

With our new customer wins, we have seen increase in turnover for both in-country logistics and global freight management of 15.3% and 10.5% respectively.

China is our key market for the Logistics business accounting for 57% of turnover. Rest of Asia, including Singapore, the Philippines, Malaysia, Indonesia and Korea accounted for 32% of turnover, while Rest of World accounted for 11%.

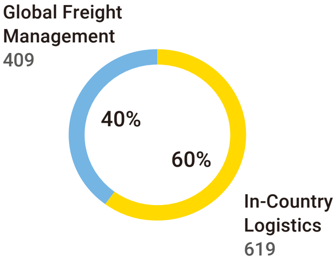
China showed the highest growth, registering 19.4% over 2016. Rest of Asia grew by 9.1% while Rest of World decreased slightly by 2.2%.

CORE OPERATING PROFIT

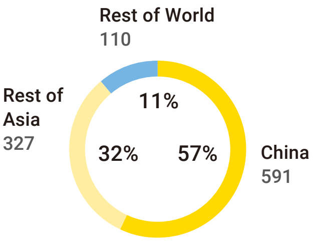
Core operating profit (COP) increased by 23.8% to US$75 million. This was mainly driven by new customer wins, geographical expansion and our continued focus on productivity improvement.

Core operating profit margin expanded by 0.6 percentage point to 7.3%. This was largely due to customer mix optimization, productivity gain and increased penetration of the higher-margin value-added services.

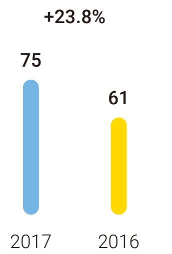
2017 Turnover Breakdown
US$m



2017 Geographical Market Turnover
US$m



COP
US$m



COP Margin	
7.3%	6.7%
+0.6 percentage point	

Products Segment

The Products segment consisted of our Onshore Wholesale business in three markets – the Americas, Europe, and Asia and three main Product Verticals, furniture, beauty and sweaters. We announced the strategic divestment of the three Product Verticals on 14 December 2017 and obtained our Shareholders' approval on 31 January 2018 with 99.94% of Independent Shareholder votes in favor of the transaction. The strategic divestment will allow the Company to set the foundation for a more simplified organization with greater agility and focus on its core competencies, and enable our senior management team to focus resources on executing the Three-Year Plan.

Onshore Wholesale Business

Going forward, the Products segment will consist of the Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, primarily supplying apparel to largely the same customer base as our Supply Chain Solutions business. Onshore Wholesale business acts as an onshore importer for customers, and while the terms of each order are agreed on a per-program basis, its relationships with customers are typically long-term and strategic in nature. The business accounted for 11% of the Continuing Operations' turnover in 2017. It has faced challenges with lower turnover and total margin percentage due to customers' promotional activities and on-going margin pressure. We will reposition this business and continue to promote cross-selling between our Onshore Wholesale and Supply Chain Solutions businesses to enhance growth.

Onshore Wholesale Business Results

	2017 US$m	2016 US$m	Change %
Turnover	**1,552**	1,590	(2.4%)
Total Margin	**300**	320	(6.2%)
As % of Turnover	***19.4%***	*20.1%*	
Operating Costs	**247**	255	(3.0%)
As % of Turnover	***15.9%***	*16.0%*	
Core Operating Profit	**53**	66	(18.6%)
As % of Turnover	***3.4%***	*4.1%*	

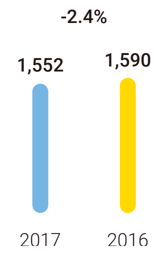
TURNOVER

Turnover of Onshore Wholesale business decreased by 2.4% year on year to US$1,552 million, largely due to anemic consumer sentiment and an unstable economic environment, particularly in Europe. Short-term customer challenges in the Americas impacted the business in that region.

The US, Europe and Asia respectively accounted for 30%, 64%, and 4% of segment turnover. Turnover in the US increased by 3.8%, the growth rate was negatively impacted by some of our proposed apparel programs not being chosen by our customers during the 2017 seasons, as well as promotional activities in the US. Turnover in Europe dropped by 6.6% amidst a weak economy. Turnover in Asia increased by 34.0% as we continue to build out our wholesale business for our Asia customers.

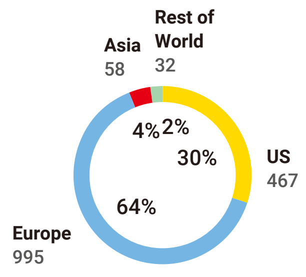
Onshore Wholesale Business Turnover

US$m

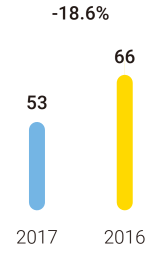


2017 Geographical Market Turnover

US$m



COP
US$m



COP Margin
3.4% | 4.1%
-0.7 percentage point

CORE OPERATING PROFIT

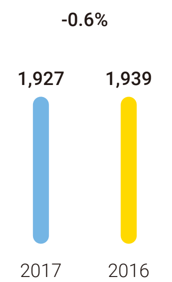
Core operating profit (COP) for Onshore Wholesale business decreased by 18.6% to US$53 million due to a reduction in total margin of 6.2% which resulted from the decrease in total turnover, offset by a 3.0% reduction in operating cost as we contained our cost base to remain competitive.

Core operating profit margin decreased by 0.7 percentage point to 3.4%, which was largely driven by a 0.7 percentage point reduction in total margin percentage due to a highly promotional retail environment and margin pressure, while our operating costs as a percentage of turnover remained flat.

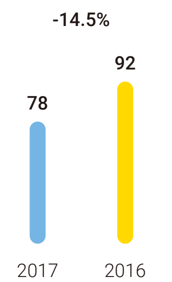
Product Verticals – Discontinued Operations

With the expected completion of the strategic divestment following Shareholders' approval in January 2018, the three Product Verticals have been classified as Discontinued Operations. While turnover for the Product Verticals was relatively flat year on year, core operating profit decreased by 14.5% to US$78 million due to on-going investment needs to fund the Product Verticals. The financial performance of the discontinued business is presented separately in the consolidated profit and loss account as one line item below the results of Continuing Operations.

Product Verticals Turnover
US$m



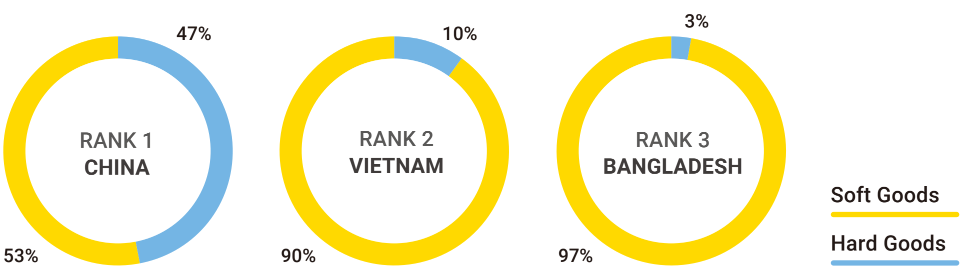
COP
US$m



Top Sourcing Countries

Our global network of more than 15,000 suppliers, spanning over 40 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize customers' margins. In 2017, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as Cambodia, Indonesia and India. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, long operating history and critical mass, is one of Li & Fung's unique competitive strengths. As the sourcing landscape continues to evolve with changes in trade policies and sourcing requirements, we are very well positioned to scale our existing operations to source in the most efficient way possible for our customers.

Top Three Sourcing Countries (Continuing Operations)



People

Our people are our most valuable assets. As at 31 December 2017, we had a total workforce of 21,322 (21,510 as at 31 December 2016). Excluding Discontinued Operations, we had a total work force of 17,371 as at 31 December 2017 (17,798 as at 31 December 2016). The 17,371 workforce included 6,789 warehouse-related employees primarily for our Logistics business. Total manpower costs of Continuing Operations for 2017 were US$755 million compared with US$802 million in 2016. We will continue to enhance the productivity of our workforce and equip our people for the new digital world. We are grateful for our colleagues' commitment to build the supply chain of the future.

Balance Sheet and Capital Structure

Strong Cash Position

After taking into account the strategic divestment of Product Verticals, Li & Fung continues to have stable and strong cash flow conversion in the Continuing Operations, which comprises Supply Chain Solutions, Logistics and Onshore Wholesale businesses. Our operating cashflow, together with US$985 million cash on hand carried forward from the previous year, more than adequately funded our working capital, interest expenses, capital expenditure, distribution, dividends and repayment of bonds in 2017. To summarize key cashflow statement items:

- Operating cash flow from Continuing Operations: US$313 million, in line with core operating profit after working capital, depreciation and tax payments
- Capital expenditures: US$91 million
- Payments for consideration payable for previous acquisitions: US$68 million
- Net interest expenses: US$54 million
- Distribution to perpetual capital securities holders: US$64 million
- Dividend payments: US$250 million

In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$62 million by the end of December 2017, of which US$44 million is earn-out payments to be substantially paid over the course of next two years. We continue to be asset-light, and our on-going total capital expenditures mainly include digitalization investments, Logistics business expansion and capital expenditures for continuing maintenance.

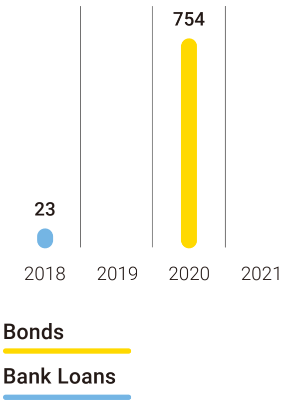
In 2017, we utilized US$500 million of cash on hand to repay the bond due in May 2017 and further solidify and deleverage our balance sheet.

Strong Balance Sheet

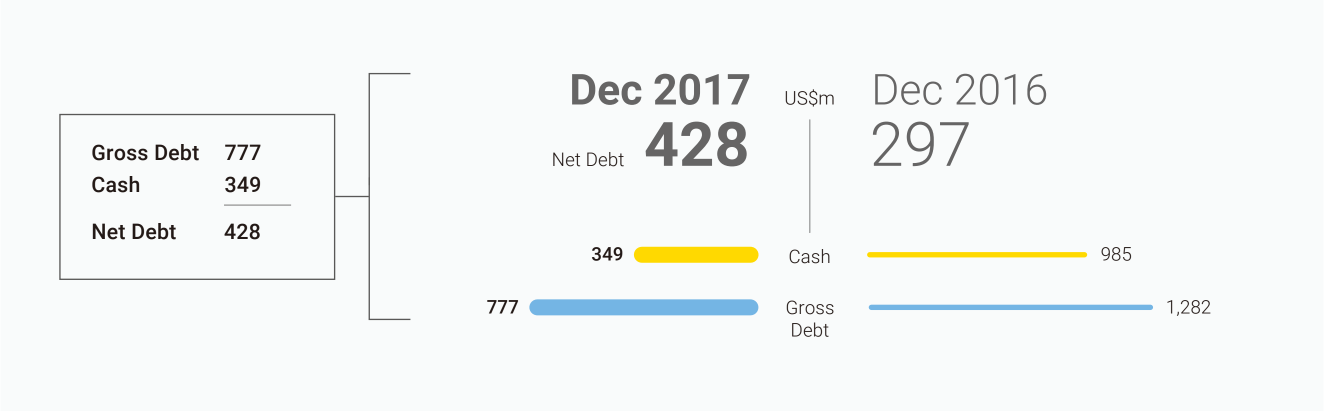
As at 31 December 2017, the cash position of our Continuing Operations was US$349 million after the repayment of US$500 million in bonds and payments of the 2016 final and 2017 interim dividends. Our total borrowings of US$777 million mainly represented a decrease of US$500 million following the repayment of the bonds in May, using proceeds from the issuance of perpetual capital securities in 2016. The cash position of the Discontinued Operations as at 31 December 2017 was US$193 million, which could be transferred to the Continuing Operations at the time of closing of the strategic divestment as part of the purchase consideration adjustments on cash free/debt free basis, along with the working capital and other closing adjustments, subject to the operating cash needs of the Discontinued Operations during the stub period from 31 December 2017 to the time of closing.

Our net debt (total borrowings minus cash) was US$428 million as at 31 December 2017. Our weighted average tenure of total borrowing is over two years. We have US$727 million in committed bank loan facilities with tenure in both 2019 and 2020. 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 how we manage our balance sheet and maintain maximum financial flexibility to provide assurance to our customers and suppliers.

Debt Maturity Schedule
(Continuing Operations)
US$m

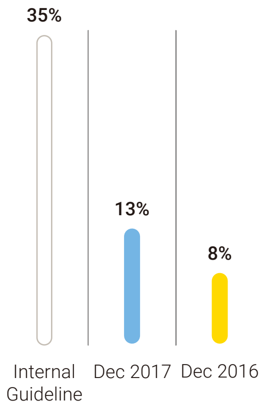


Cash and Gross Debt*
US$m



* 2017 figures represent Continuing Operations; 2016 figures represent reported balance sheet as at 31 December 2016

Gearing Ratio*



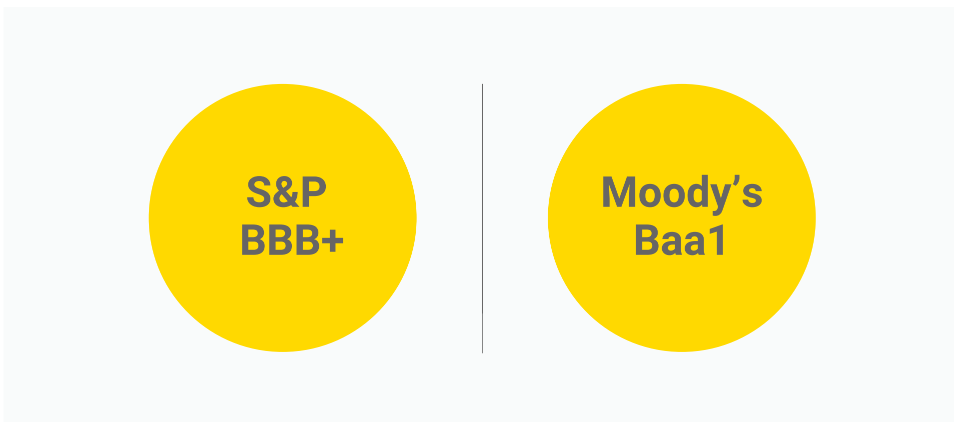
* 2017 ratio represents Continuing Operations; 2016 ratio represents reported balance sheet as at 31 December 2016

Gearing Ratio and Current Ratio

Our gearing ratio and current ratio of the Continuing Operations were 13% and 1.4 respectively as at 31 December 2017 (8% and 1.1 respectively for the Group as at 31 December 2016). The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans, long-term bank loans and long-term notes) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 31 December 2017, our credit rating was Baa1 according to Moody's and BBB+ according to Standard & Poor's. We are committed to maintaining a strong balance sheet, healthy cash flow and strong credit ratios, with the long-term target of retaining an investment-grade rating.

Credit Rating



Banking Facilities

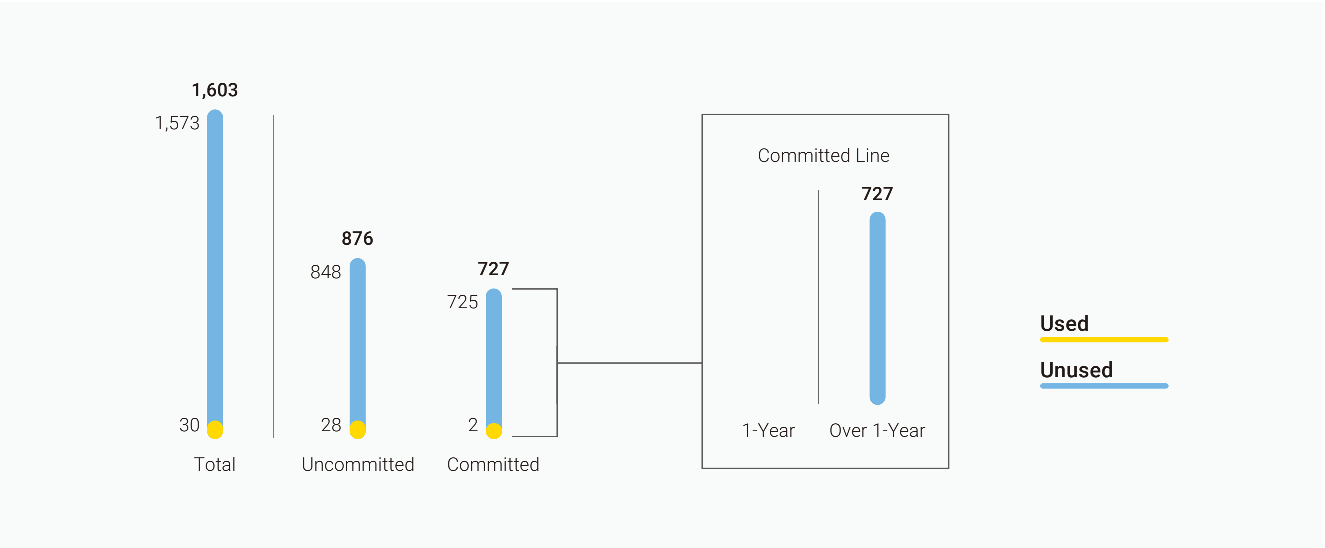
Bank Loans and Overdrafts

As at 31 December 2017, we had available bank loans and overdraft facilities of US$1,603 million, of which US$727 million were committed facilities. The majority of the committed facilities have tenure up to 2019. Only US$30 million of the Group's bank loans and overdraft facilities was utilized, of which US$25 million and US$5 million were utilized by the Continuing Operations and the Discontinued Operations respectively. Unused limits for bank loans and overdraft facilities amounted to US$1,573 million, with US$725 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by US$2.5 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. Given the strategic divestment of the Product Verticals, we expect that the required available bank facilities will be reduced proportionately after the transaction closes. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 31 December 2017, only approximately 12% of the trade finance facilities was used.

Unused Bank Loans
US$m



Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our acquired businesses, which are private enterprises that rely 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 upon with entrepreneurs in accordance with sale and purchase agreements.

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. In 2017, there was a US$31 million write-back of acquisitions payable.

Goodwill Impairment Tests

We perform goodwill impairment tests based on the cash-generating units (CGU) that manage acquired businesses in accordance with HKAS 36, Impairment of Assets. Based on our assessment of all of the CGUs under the current operating structure of the Group, we have determined that there was no goodwill impairment as at 31 December 2017, 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.

Remeasurement Loss on Assets Classified as Held for Sale

As a result of the strategic divestment, the three Product Verticals were recognized as assets classified as held for sale in accordance with HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations, and were required to be marked down to the lower of their carrying value and fair value less costs to sell. In such respect, an unrealized non-cash remeasurement loss of US$592 million was recognized as at 31 December 2017, estimated based on the carrying value of the relevant goodwill and other asset/liabilities of the three Product Verticals as at 31 December 2017, on cash free/debt free basis and adjusted for relevant closing adjustments. The strategic divestment is targeted to close during the first half of 2018, subject to regulatory approval. Any true-up amount based on the then prevailing carrying value of the net assets of the Discontinued Operations will be recognized as gain/loss on disposal at closing in 2018.

In respect of the three Product Verticals, the Group has already recognized US$288 million in gain on remeasurement of contingent consideration payable in previous years. Should the above write-back be taken into overall consideration, the loss on remeasurement of assets held for sale from the strategic divestment of the three Product Verticals would have been adjusted to US$305 million.

Adoption of New Accounting Standard, HKFRS 15, Revenue from Contracts with Customers

To augment the consistency of our financial information throughout the period, we have elected to apply HKFRS 15, Revenue from Contracts with Customers, in 2017. This new accounting standard provides clear guidance on the timing and basis of recognition for revenue. Timing of recognition is based on the transfer of control of goods or services rather than transfer of risks and rewards. Basis of recognition is determined based on the assumption of primary responsibility to the customers, risk associated with inventories and control of price determination. Prior period comparatives have been retrospectively restated. Applying this new accounting standard resulted in decrease in turnover and costs of goods sold by approximately US$94 million and decrease in operating profit by approximately US$2 million for 2016. Further information about the application has been set out in Note 1.1 to the financial information.

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 for our customers in terms of accounts receivable and inventory.

In addition, as we provide working capital solutions to our suppliers via LF Credit by selectively settling accounts payable earlier at a discount, we also assume direct counterparty risk for 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 a 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 uses 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 is 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

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 through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, we 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.

Outlook

Retail sentiment turned more positive in the last quarter of 2017 and the recovery trend seemed intact as of early 2018. However, macroeconomic uncertainties remain as the Federal Reserve continues to strike a delicate balance along the interest rate cycle. We are also expecting more retail store closures this year as retailers continue to rationalize their store portfolios.

Destocking will continue as tight inventory control, which grew out of the tough retail environment of past years, is unlikely to relax. In fact, conservative and just-in-time inventory management has become the new norm as consumer demand is changing at a much more rapid pace in a digital market place. This requires our customers to be more agile and flexible in order to excel in the fast-changing market. Many of them are relying on our digitalized supply chain to achieve speed-to-market and we believe the adoption rate of our speed model and other digital services will continue to rise.

We target to complete the strategic divestment of our three Product Verticals during the first half of 2018, subject to regulatory approval. The transaction will enhance our financial flexibility and allow us to focus our resources on core competencies. The remaining business will consist of Supply Chain Solutions, Logistics and Onshore Wholesale businesses. Supply Chain Solutions and Logistics businesses of Services segment together offer end-to-end solutions to our customers. Complemented with our Onshore Wholesale business of our Products segment, we are offering our customers with great flexibility and deep product design expertise; a unique supply chain solution that can help our customers to compete better in the marketplace.

We have developed solid capabilities to capture revenue streams with strong growth potential. The development of omni-channel retailing – the integration of brick-and-mortar and online retailing – by both pure online and traditional retailers have been generating incremental demand for us. We are already serving customers operating in different retail formats and providing insightful analytics from our proprietary database.

Our in-country logistics business will continue to benefit from our expanded geographical coverage, strong demand for regional and global hubbing and e-logistics services as well as an aggressive push on growing our transportation offering. With the continuing robust performance of the existing markets and with the successful penetration into new growth markets such as India and Vietnam, we are poised to ride on the medium-to long-term trend of rapidly rising middle-class consumption in Asia for years to come. Our global freight management business promises exciting growth opportunities on the back of our recently implemented IT platform and enhanced agent network. Overall, we feel sanguine about the growth prospects of the Logistics business for years to come.

Our new Three-Year Plan has enjoyed a strong start and we will remain laser-focused on achieving our goal to create the supply chain of the future. The strategic divestment of the three Product Verticals will allow us to streamline our operations further and focus on our core business. We are on track to deliver a digital platform that connects suppliers, customers and other partners with end-to-end visibility and data analytics to enhance procurement decision-making. This will serve as the nucleus of our future service offerings, enabling Li & Fung to provide better, faster supply chain services beyond the traditional value-added services, ultimately creating new opportunities and revenue streams for the Group in the future.

Case Study: Digitizing the Product Development Cycle

Speed is the new currency. It's no longer enough to optimize your supply chain for cost alone. Our aim is to increase speed like never before, helping our customers reduce lead times and increase speed-to-market to meet growing consumer expectations. We believe companies who can move fast and react to changes in the environment quickly will win.

Spencer Fung
Group CEO

Bringing speed to our customers' supply chains

For 40 years brands and retailers have viewed promotional sales events as a guarantee of increased foot traffic and success. With promotions the new norm, those days are over. With disruption from e-tailers and ever-changing consumer behavior, driven by technology, speed is the guarantee of success.

Li & Fung's goal is to fully digitalize each step of the supply chain so we can seamlessly capture data end-to-end, realizing data-driven insights. The first step in bringing speed to our customers' supply chains is digitizing the product development cycle which includes design, sampling and fitting.

To achieve this, we have created a new Digital Center of Excellence that leverages our scale to build one of the industry's largest and most skilled centers of expertise in digital design, sampling and fitting. With advanced digital design and rendering capabilities, the Digital Center of Excellence allows our teams to innovate and collaborate real time with our customers, leading to better product decisions and drastically reducing the time the sampling process takes from weeks to days or even hours.

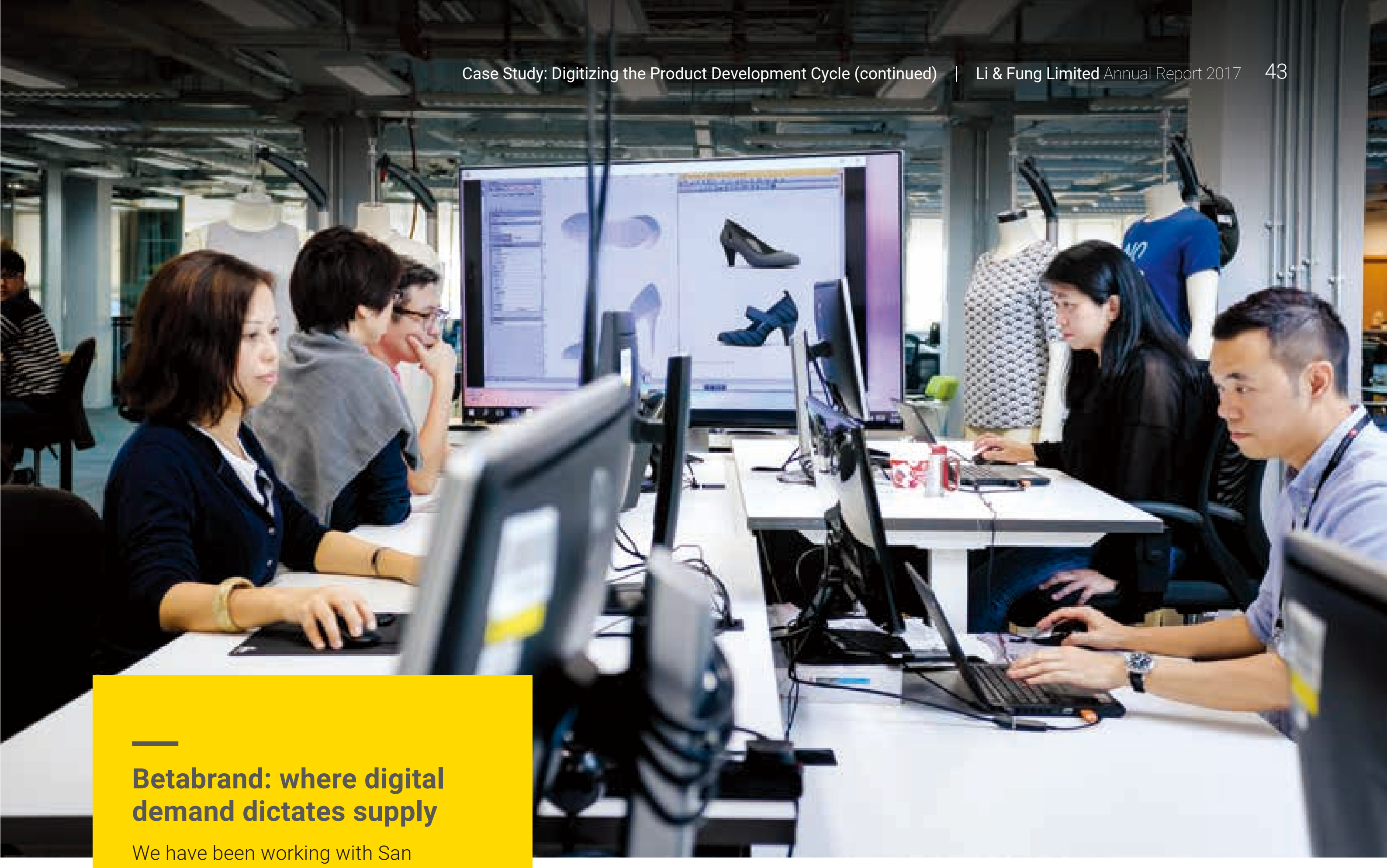
A supply chain optimized for speed not only helps our customers save time and money but also brings their buying decisions closer to time-to-market enabling them to respond quickly to trends, improve inventory control and decrease mark downs – all with the aim of improving profitability. Our competitive advantage in realizing on-time customerized solutions makes production more timely and resource efficient.

Time required for product sampling

13 Weeks
Industry average, with physical samples

4 Weeks
Using LF digital tools

70%
Total time saved



Betabrand: where digital demand dictates supply

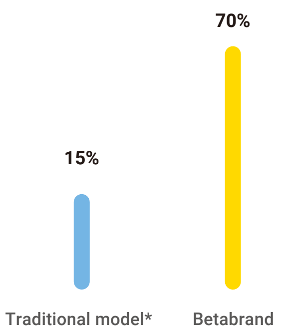
We have been working with San Francisco-based apparel firm and crowdfunding platform Betabrand to experiment a 'high-speed consumer development process' that bring ideas to life in a matter of weeks.

At Betabrand, consumers are invited to be involved in a quick co-development process with its designers to create products their consumers actually want.

In this experiment involving shoes and handbags, what Li & Fung did was develop all the designs from a digitized library of components and provide 3-D rendered products, which are virtually indistinguishable from the real products, allowing consumers to purchase them right off designers' desktops. Once demand for the products hits a certain target, Li & Fung will then physically produce the products. In other words, only the products the consumers want – and have paid for – are produced.

Using Li & Fung's digital design capabilities, the product development cycle is reduced by months, creating newness with on-trend products and reducing waste by producing 'right the first time' products.

Adoption rate



Excess inventory

Traditional model*

Betabrand
All products are crowdfunded by consumers before production

Price markdown

~20% ↓

Traditional model*

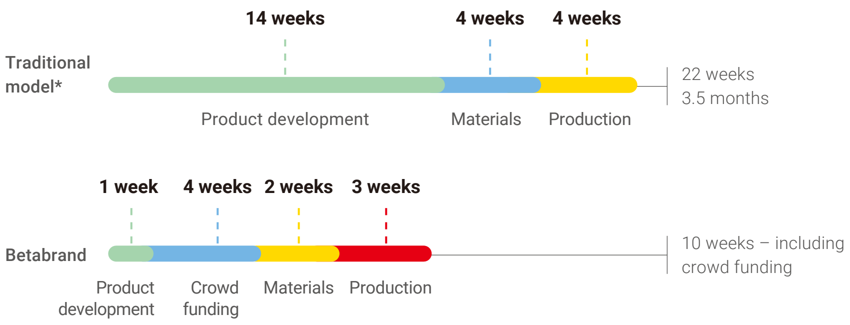
(Markdown is required to clear the inventory)

Sell through

94%

Betabrand

Time taken from concept to production



* The traditional model requires making and shipping multiple physical samples during the product development process.

Our Commitment to Good Governance

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


LI FUNG TOWER
ROAD

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 four Executive Directors, one Non-executive Director and five 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 benefit of diversity on the Board. Directors' biographical details and relevant relationships are set out in "Our Board and Management Team" section on pages 72 to 85.

Victor Fung Kwok King
Honorary Chairman
- Chairman of Risk Management and Sustainability Committee
- Member of Remuneration Committee

Margaret Leung Ko May Yee
- Chairman of Audit Committee
- Member of Nomination Committee

Allan Wong Chi Yun
- Chairman of Remuneration Committee
- Member of Audit Committee
- Member of Risk Management and Sustainability Committee

Martin Tang Yue Nien
- Chairman of Nomination Committee
- Member of Audit Committee
- Member of Remuneration Committee

Chih Tin Cheung
- Member of Audit Committee

William Fung Kwok Lun
Group Chairman
- Member of Nomination Committee
- Member of Risk Management and Sustainability Committee

Spencer Theodore Fung
Group Chief Executive Officer
- Member of Risk Management and Sustainability Committee

Marc Robert Compagnon
Executive Director and Group President
- Member of Risk Management and Sustainability Committee

Joseph C. Phi
Executive Director and President of LF Logistics

John G. Rice
- Member of Audit Committee

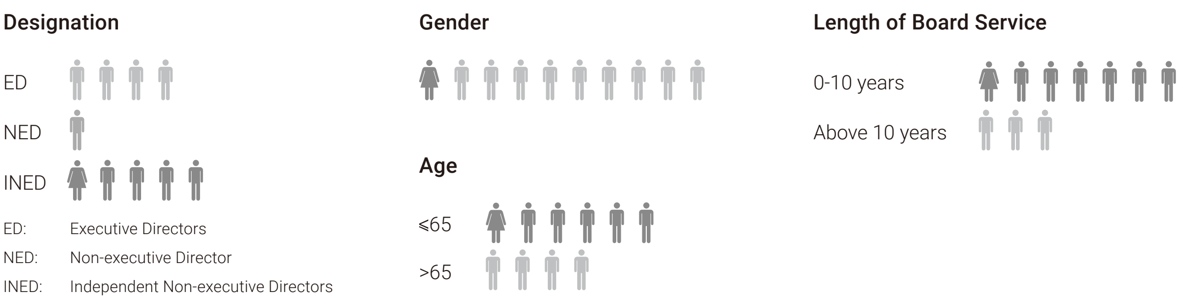
Board Diversity

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 our sustainable development and growth. This also promotes the interests of all our stakeholders, particularly the long-term interests of our Shareholders, fairly and effectively.

Our Board Diversity Policy sets out the approach to diversify the Board and 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. In 2017, the Nomination Committee identified a number of potential candidates and recommended three of them to join the Board. All three recommended candidates were subsequently appointed in view of their business leadership and experience.

Visit our website to download our Board Diversity Policy.

The profile of our Board members is 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 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 Group 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 are delegated 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 2017 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 including the appointment of three new directors in 2017, 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 with their independence for 2017. This assessment of 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.

All Non-executive Directors are 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 a 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 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 2017, 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 2017 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, three separate meetings were held in 2017 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 2017.

Liability Insurance for the Directors

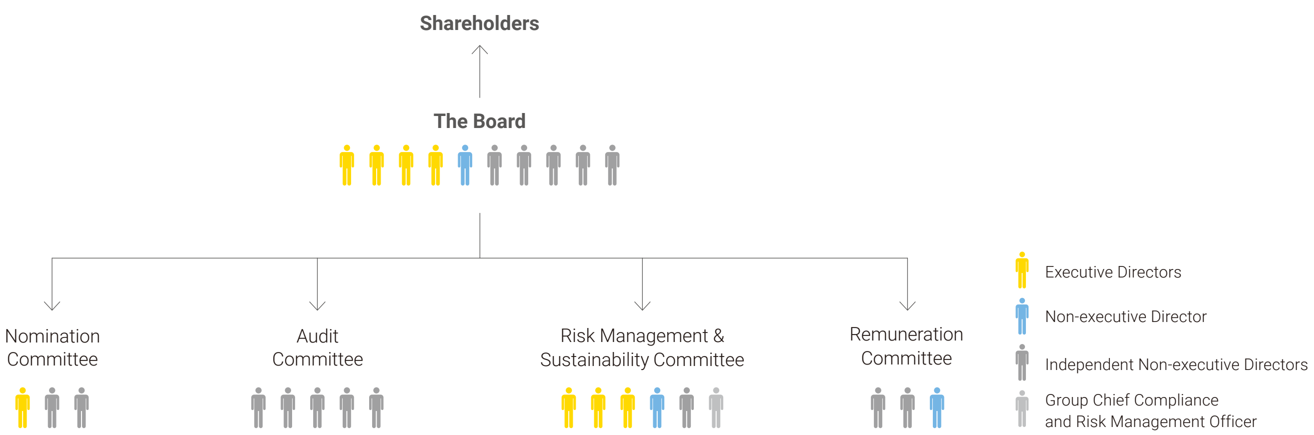
Details of liability insurance to indemnify the Directors for their liabilities arising out of corporate management activities are disclosed in the "Report of the Directors" section on page 161.

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 2017 annual general meeting to answer any questions from Shareholders on the audit of the Group.

In 2017, the Board held five meetings with an average attendance rate of 88%. Below is a summary of the Board and committee composition, and meetings held in 2017.

The Board and Shareholders



Board and Committee Meetings for Year 2017

The board met formally and regularly throughout the year, as well as on an ad hoc basis as required by business needs.

Details on number of meetings attended/held are shown below.

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Victor Fung Kwok King [1]	5/5	N/A	N/A	4/4	2/2	1/1
Paul Edward Selway-Swift [2]	1/2	2/2	1/2	N/A	N/A	0/1
Allan Wong Chi Yun [3]	5/5	N/A	4/4	4/4	2/2	1/1
Martin Tang Yue Nien [4]	2/5[14]	2/3[14]	1/4[14]	N/A	1/2[14]	1/1
Margaret Leung Ko May Yee [5]	4/5	2/2	4/4	N/A	N/A	1/1
Chih Tin Cheung [6]	3/3	N/A	2/2	N/A	N/A	N/A
John G. Rice [7]	N/A	N/A	N/A	N/A	N/A	N/A
William Fung Kwok Lun [8]	5/5	3/3	N/A	4/4	N/A	1/1
Spencer Theodore Fung [9]	5/5	N/A	N/A	4/4	N/A	1/1
Marc Robert Compagnon [10]	5/5	N/A	N/A	3/4	N/A	1/1
Joseph C. Phi [11]	N/A	N/A	N/A	N/A	N/A	N/A
Jason Yeung Chi Wai	5/5[12]	3/3[12]	4/4[12]	4/4	2/2[12]	1/1[12]
Average attendance rate	**88%**	**89%**	**75%**	**96%**	**83%**	**88%**
Dates of meeting	29/3/2017 1/6/2017 24/8/2017 17/11/2017 14/12/2017	28/3/2017 31/5/2017 16/11/2017	28/3/2017 31/5/2017 23/8/2017 [13] 16/11/2017	18/1/2017 19/5/2017 22/8/2017 6/11/2017	23/8/2017 [13] 16/11/2017	1/6/2017

1. Honorary Chairman, and Chairman of the Risk Management and Sustainability Committee
2. Retired as an Independent Non-executive Director on 1 June 2017 and ceased to be a member of the Audit Committee and Nomination Committee
3. Chairman of the Remuneration Committee
4. Chairman of the Nomination Committee
5. Chairman of the Audit Committee and appointed as a member of the Nomination Committee with effect from 29 March 2017
6. Appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 14 July 2017
7. Appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 10 January 2018
8. Chairman of the Board
9. Group Chief Executive Officer
10. Group President
11. President of LF Logistics, appointed as an Executive Director with effect from 10 January 2018
12. Attended Board and Committee meetings as a non-member
13. Held by telephone conference
14. Due to medical issues, Martin Tang Yue Nien did not attend some Board and committee meetings

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 the 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, and the committee's role in 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 three times in 2017 (with an attendance rate of 89%) 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 2017 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 2017 (with an attendance rate of 75%) 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 to make relevant recommendations to the Board.

In 2017, the Committee's review covered:

- Internal auditor's three-year audit plan (covering 2017-2019) and audit findings
- External auditor's audit plan for 2017 and audit findings
- The external auditor's independence and provision of non-audit services
- The Group's accounting principles and practices, goodwill assessment, Listing Rules and statutory compliance, connected transactions, risk management and internal controls, and treasury and financial reporting matters (including the interim and annual financial reports for the Board's approval)
- Updates on the changes to the Accounting Standards and proposed changes to the Corporate Governance Code and the respective impact to the Company
- Emerging risks (particularly credit, global tax regime, cyber security, data privacy and protection, anti-corruption, business ethics 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
- Cases of serious misconduct of employees and the related internal control enhancements

Following international best practices, the Committee conducts annual self-assessment of its effectiveness by completing a detailed audit committee best practice checklist to review its current practices. Based on the latest assessments focusing on reviewing integrity of financial statements, discharge of duties in respect of corporate governance, risk management and internal control systems, code of conduct, corporate culture and compliance, oversight of internal and external audit functions and relationship with external auditor, the Committee believes it is functioning effectively.

WHISTLEBLOWING ARRANGEMENTS AND INVESTIGATIONS

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 2017, two incidents of fraud were investigated and reported. Both cases have been reported to the local law enforcement authorities and the respective losses are being assessed for claiming under insurance. The relevant internal control systems were strengthened. No incidents of fraud or misconduct were considered to have material effect on the Group's financial statements or overall operations.

Visit our website to download our Code of Conduct and Business Ethics.

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 2017, 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 2017 have been scrutinized by the Audit Committee (Refer to details of fees to auditor in Notes 4 and 31(c) to the "Financial Statements" on pages 208 and 242).

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 the 2017 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 2018 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 reviewing the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management and Sustainability Committee met four times in 2017 (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 commitments

In addition, the Committee specifically discussed the following matters in 2017:

- Cases of suspected serious misconduct of employees and related internal controls enhancements
- Li & Fung's Disclosure Statement on Modern Slavery and the Company's policies and actions relating to modern slavery and human trafficking in business and the supply chain. The Statement was subsequently adopted by the Board
- Updates on cyber security and certification of ISO27001 (Information Security)
- Initiative of new credit insurance policies to mitigate customer default risk
- Updates on our corporate responsibility and sustainability matters in our supply chain management

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 twice in 2017 (with an 83% 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.

Details of Directors' and senior management's emoluments of the Company are set out in Note 10 to the "Financial Statements" on page 211 and Note 40 to the "Financial Statements" on pages 257 to 259.

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 their 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 2017–2019.

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 Award Shares

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 for service length. The purpose is to align the interests of eligible employees of the Group through the ownership of Shares, dividends and other distributions paid on Shares and/or increases in the 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 of Non-executive Directors, comprising Directors' fees, 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 2017, 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 page 77.

Market Recognition

The Group's commitment to excellence and high standards in corporate governance practices continued to earn market recognition from stakeholders, including professional organizations, 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 appreciate that some of our employees may have access to unpublished, price-sensitive information ("Inside Information") in their daily work, as such we have extended such procedures to cover relevant employees who are likely to be in possession of Inside Information of the Group. Relevant employees are also subject to compliance with written guidelines in line with the Model Code. For 2017, specific confirmation of compliance has been obtained from each Director. No incident of non-compliance by Directors and relevant employees was noted in 2017.

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 the 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 related to their allocated issue areas

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 161 to 163. The Shares held by each member of senior management are less than 2% of the issued share capital for the year ended 31 December 2017.

Directors' Responsibility for Financial Statements and Auditor's Responsibility

The Directors' responsibility for preparing the financial statements is set out on page 164, and the auditor's reporting responsibility is on pages 168 to 169.

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 2017.

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 the 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 or a 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 enquiry lines as set out in the "Information for Investors" section on page 148.

Visit our website to download our 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 2017. The Company's constitutional documents are available on our website.

Investor Relations

Effective engagement with investors and timely disclosure are key components of good corporate governance. Our Investor Relations team meets frequently with investors and analysts to provide updates on our business. Our senior management team maintains two-way exchanges with investors and attends investment conferences regularly. Our consistent effort has earned us industry accolades including the Hong Kong Investor Relations Association's Best IR Company (Mid-Cap) and Corporate Governance Asia's Best Investor Relations Company in 2017.

We are committed to complying with disclosure rules and regulations stipulated by the relevant regulatory bodies, including the SFO and Listing Rules in Hong Kong. The Group handles and disseminates inside information in accordance with the 'Guidelines on Disclosure of Inside Information' issued by the Securities and Futures Commission of Hong Kong as well as established internal policy. Members of senior management that are authorized to respond to external enquiries are clearly identified and guided by our Shareholders' Communication Policy. These policies are regularly reviewed by the Board.

To facilitate equal access to information, we have made constitutional documents, financial reports, presentation materials, announcements and circulars readily available on our corporate website. Investors can also elect to receive information by email. In addition, the website contains comprehensive and updated information on our company's business model and strategy.

Our Approach to Risk Management

We maintain a solid, 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 risk is inherent in our business and the markets in which we operate, and we undertake and monitor risk in pursuit of our strategic and business objectives. The challenge is to identify, understand and manage risks so they can be minimized, transferred or avoided. This demands a proactive approach to risk management and an effective group-wide risk management framework which helps anticipate risk and the Company's exposure, put controls in place to counter threats and effectively pursue the set approach.

The Board is responsible for maintaining a solid, effective system of risk management and internal control and for reviewing its effectiveness, and the adequacy of necessary policies and procedures. We recognize that risk management is the responsibility of all 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 control, and through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that are 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.

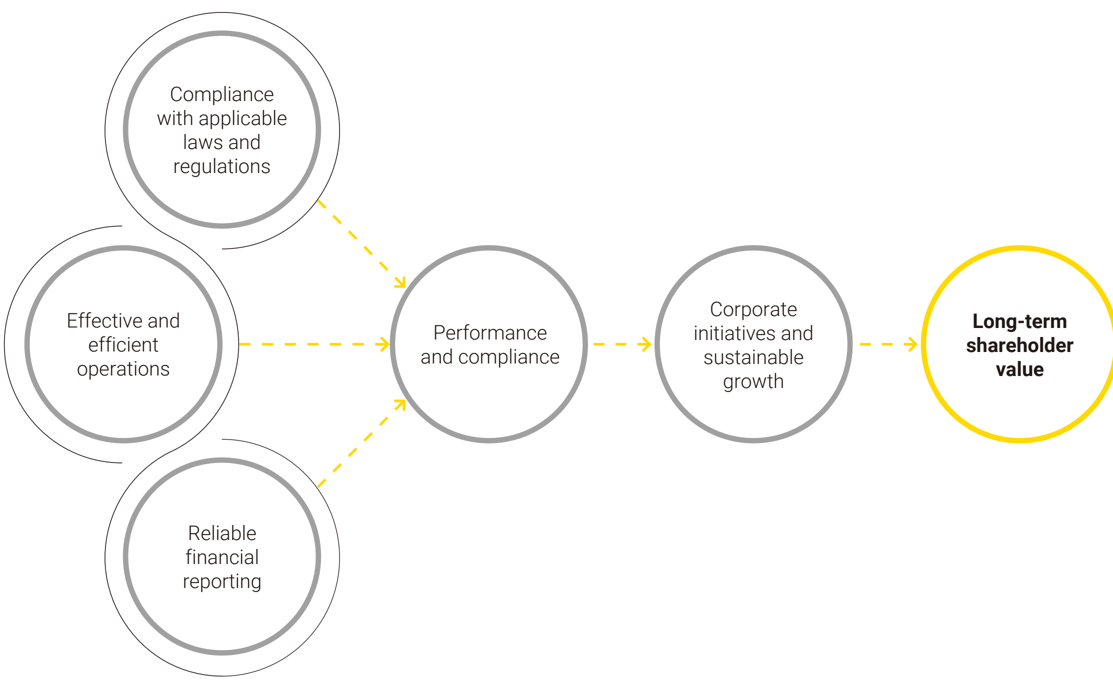
Described below are the main characteristics of our risk management and internal control framework.

Control Environment

The control environment is the foundation on which an effective system of internal control is built and operated. 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, 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 Internal Control Framework is Designed to Achieve



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 • Strategic policies and operating guidelines formulation and execution • Balance between business operational efficiency and exercising internal control • Ensuring that critical risks are reported to the Board, along with the status of actions taken to manage these risks
Risk monitoring and communication	Corporate Compliance team	• Supporting the Board in the evaluation of risk management and internal control systems to identify areas for improvement • Monitoring of corporate governance disclosure, statutory and listing rules compliance • Undertaking of independent 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 business support functions and exercise control over global treasury activities, financial and management reporting, human resources (HR), corporate services, and legal and information technology systems. This ensures adequate segregation of duties and a series of 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 by 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, staff expense claims, 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.

The compliance with these KOGs is also subject to periodic assessment by the internal audit team during the compliance audits, which are conducted on an ongoing basis across the Group throughout the year. Any significant non-compliance incidents as identified need to be followed up for proper rectification and reported to the Audit Committee periodically.

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 2017, no significant corrective action needed to be taken.

With the strategic divestment of three of our product verticals, Furniture, Sweaters and Beauty, and a renewed focus on our core business, we anticipate further streamlining and simplification of our operations and processes from 2018 onward.

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 semi-annual basis. Monthly updates are also provided to the Board to give timely and comprehensive assessments of the Group's performance, position, prospects and economic performance. Management closely monitors actual financial performance at both the Group and operating group levels, on a monthly and quarterly 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 36 and 37 to the "Financial Statements" on pages 248 to 252.

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 reputational 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 on our internal and external websites, for all Directors, employees and other stakeholders. 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 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 on by our HR, Legal and/or Corporate Governance divisions. Training sessions are regularly held throughout our global operations to foster an ethical culture and reiterate the Company's zero-tolerance approach to bribery and the importance of proper business ethics.

In 2017, we formed a Business Ethics Education Working Group (Working Group), led by our Learning & Organizational Development (L&OD) team. The Working Group comprises members from L&OD, Legal, Corporate Governance, Digital Learning, HR and business units to allow cross-functional collaboration and enable the following contributions:

- Legal and Corporate Governance members provide their technical expertise, real-life case studies and verification of training materials
- Business unit members share their concerns, frequently encountered situations and risks to the business
- L&OD team delivers workshops, provides train-the-trainer training for overseas offices to ensure local HR and line managers are well-equipped to deliver workshops and handle business ethics situations locally
- Digital Learning team designs the electronic learning platforms so that all employees can access business ethics training anytime and anywhere. An electronic learning platform for all employees will be launched in 2018 to further strengthen employee awareness of the Company's ethical values

The aim of the Working Group is to make a positive impact on the Group's corporate compliance culture and work ethics by providing educational workshops and e-learning materials to employees. We consider education an important way to remind our employees of our core value of upholding rigorous business ethics and integrity, to create a stronger Li & Fung and maintain a sustainable business and our reputation.

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, are taken in any serious cases.

Additionally, 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 of any kind of bribery, use of child or forced labor or serious health and safety issue. As outlined in “Our Supply Chain” section, suppliers are periodically subject to compliance auditing 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. In 2017, we shared our Disclosure Statement on Modern Slavery and the Company’s policies and actions relating to modern slavery and human trafficking in business and the supply chain. We also acknowledge our responsibility to maintain a respectful workplace that is free of all forms of discrimination or harassment.

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.

With the launch of Organisation for Economic Co-operation and Development/G20 Base Erosion and Profit Shifting (BEPS) projects, there come stricter and more demanding taxation reporting requirements in different jurisdictions. Compliance with these rules becomes more challenging as some non-G20 countries also reacted by legislating new taxation laws in line with the BEPS requirements. Our in-house taxation experts and external advisors are working on aligning our processes and practices to ensure compliance with the new requirements.

6. INFORMATION TECHNOLOGY RISK MANAGEMENT

Mitigating cyber security risk continues to be one of our strategic focuses in our digital transformation journey.

Being awarded the ISO 27001 Information Security Management certification in 2017 reaffirms the Company's commitment to protect users and clients from cyber security threats. We constantly strengthen our three-tiered approach of providing user awareness training, updating our technology and improving our processes in order to prevent, detect and mitigate security related incidents that might cause financial loss and reputational damage.

We strive to discover any looming threats, eliminate them and restore order immediately. Together with managed security services subscribed from top security experts, we have implemented our Security Operation Center (SOC) with state-of-the-art technology for 24/7 monitoring on any suspicious activities. To mitigate potential damage, we have well-developed comprehensive security incident handling procedures to respond to different types of attacks effectively. At regular intervals, we provide tailor-made security awareness training, such as phishing exercises through various channels, to help our people become more cautious about cyber security.

As information security is becoming increasingly important, we will continue to use a systematic and risk-based approach to manage the security of our information assets, including financial information, intellectual property, employee details or information entrusted to the Company by third parties. We will continue to enhance our security posture and ensure system availability through our resilient infrastructure setup.

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 risk 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 internal audit team has unrestricted access to any information required for review of any operations, controls and compliance with corporate policies, guidelines, rules and regulations. The Group Chief Compliance and Risk Management Officer has the right to consult the Audit Committee without reference to management and 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 concern or risk 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 2017, 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 responses noted in the self-assessment programs and considered sound internal control practices to be in place for 2017.

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 2017.

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 2017:

- 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 the Group's policies and KOGs under 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 72. 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 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). Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme. Advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority. Appointed member of the Chief Executive's Council of Advisers on Innovation and Strategic Development in March 2018. 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 China Petrochemical Corporation (April 2012–January 2016). A member of the Chinese People's Political Consultative Conference (January 2003–January 2018). 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 69. 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, by The Hong Kong Polytechnic University and by Hong Kong Baptist University. An independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. 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. An independent non-executive director of Singapore Airlines Limited (2009–2017). 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). Hong Kong Special Administrative Region delegate to the China People's Political Consultative Conference (1998–2003). Awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008.

Spencer Theodore Fung
Group Chief Executive Officer

Age 44. 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 member 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
Group President

Aged 59. Executive Director since 2014 and Group President. 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.

Joseph C. Phi
Executive Director and
President of LF Logistics

Aged 55. Executive Director since January 2018. 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 and 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 the same university. 2011 recipient of UP College of Business Administration Distinguished Alumnus Award and 2013 recipient of UP Industrial Engineering Alumni Award and UP Alumni Engineers Global Achievement Award for Logistics. Chairman of GS1 Hong Kong, and a director of GS1 Management Board and Macy's China Limited. Adjunct professor in the School of Business and Management at The Hong Kong University of Science and Technology.

Age 67. 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 by the Hong Kong Special Administrative Region Government in 2003 and 2008 respectively.

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

Aged 65. An Independent Non-executive Director since 2013. Deputy chairman, managing director 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 and Hong Kong Exchanges and Clearing Limited. Formerly, an independent non-executive director of China Construction Bank Corporation (2013–2016) and QBE Insurance Group Limited (2013-2017). Holds a Bachelor's degree in Economics, Accounting and Business Administration from The University of Hong Kong.

Margaret Leung Ko May Yee
Independent Non-executive Director
Chairman of Audit Committee

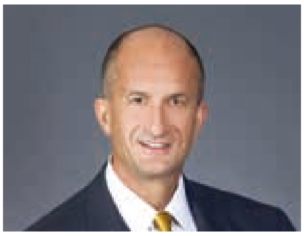
Age 68. An Independent Non-executive Director since 2009. Former chairman, Asia of Spencer Stuart & Associates, a global executive search consulting firm. An independent non-executive director of the publicly-listed CEI Limited. Formerly, an independent non-executive director of China NT Pharma Group Company Limited (2010-2017). Holds a Bachelor of Science degree in Electrical Engineering from Cornell University and Master of Science in Management from the Massachusetts Institute of Technology.

Martin Tang Yue Nien
Independent Non-executive Director
Chairman of Nomination Committee

Board Member Biographies (continued)

Chih Tin Cheung
Independent Non-executive Director

Aged 47. An Independent Non-executive Director since July 2017. Co-founder and co-chairman of JAMM Active Limited. Managing partner of C2 Capital Limited. Director of Wheels Up Partners Holdings LLC and Talent First Limited. Previously, the non-executive chairman of RSI Apparel (China) Limited, a director of RSI Apparel Limited, the non-executive chairman of Yucheng Technologies Limited, the managing partner of Staples Asia Investments Limited, a director of The Taiwan Fund, Inc., the co-founder and chief executive officer of HelloAsia Corporation, the chief executive officer of Crimson Solutions and an analyst at Goldman Sachs in New York and Hong Kong. Holds a Juris Doctor degree from Harvard Law School, a Master's Degree in Business Administration from Harvard Business School, Master of Arts degree and Bachelor of Arts degree from Harvard University.



John G. Rice
Independent Non-executive Director

Aged 61. An Independent Non-executive Director since January 2018. Vice chairman of General Electric Company ("GE") and will retire from GE on 31 March 2018 after 39 years of services. Director of Baker Hughes, a GE Company which is listed on The New York Stock Exchange. Holds a Bachelor of Arts degree in economics from Hamilton College in Clinton, New York, and remains on their Board of trustees today. Trustee of Emory University in Atlanta, Georgia, and serves on several other boards including the International Advisory Board of the King Fahd University of Petroleum and Minerals, Dhahran, Saudi Arabia, and the Centers for Disease Control and Prevention Foundation in Atlanta.

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 ecosystem alliances, 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 positions at Citi and Morgan Stanley, and practiced public accounting at Coopers & Lybrand. Completed Advanced Management Program at Harvard Business School. 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 former 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 63. 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 54. 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). Vice-chairman of the Membership Committee of HKICS. 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.

2017 Senior Management Biographies

Annabella Leung Wai Ping
Chief Executive Officer of Cobalt Fashion

Aged 65. Chief Executive Officer of Cobalt Fashion managing the Group's Knitwear 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 Supply Chain Solutions

Aged 51. One of three Presidents of Supply Chain Solutions leading SCS1, managing both soft and hard lines for the Group's largest department store customers, the children's platform and home textile platform. Prior to joining the Group in 1999, held senior positions with Colby International Limited 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 Strategic Initiatives

Aged 56. President of Strategic Initiatives responsible for driving synergies across the Group and introducing value-added strategies to customers and vendors. Joined the Group in 2003 and was promoted to Executive Director – Indian Subcontinent & Sub Sahara Africa since 2014. More than 28 years of experience in managing strategic sourcing and operational business roles. 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.

Aged 56. President of LF Asia Direct since May 2017 and responsible for building the Asian market as well as providing value to US and EU customers. 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, Chief Administrative Officer of the Group and responsible for global hub operations, corporate services including global procurement and global workspace management of the Group. Before that, 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.

Emily Mak Mok Oi Wai
President of LF Asia Direct

Aged 61. President of LF Beauty overseeing 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.

Gerard Jan Raymond
President of LF Beauty

Aged 67. President of LF Furniture 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.

Henry Chan
President of LF Furniture

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): Lậle Kesebi, Henry Chan, Marc Compagnon, William Fung, Spencer Fung, Victor Fung, Emily Mak and Edward Lam

2017 Senior Management Biographies (continued)

Lâle Kesebi
Chief Communications Officer & Head of Strategic Engagement

Aged 49. 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 AUW Support Foundation in Hong Kong. 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. Resigned from the Group on 14 February 2018.

Manuel Carlos Fernandez
Group Chief Technology Officer

Aged 47. 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. Head of Global Transactional Services of the Company since 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.

Richard Nixon Darling
Executive Director of LF Americas

Aged 64. Executive Director of LF Americas, overseeing the wholesale and distribution business in the US. Also responsible for the Group's Vendor Compliance & Sustainability business as well as the Government and Public Affairs overseeing government relations, public affairs and supply chain sustainability on global industry and multi-stakeholder initiatives for the Group. Formerly, President of LF USA overseeing the Group's portfolio of brands and heading up DSG, 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 Supply Chain Solutions

Aged 55. One of three Presidents of Supply Chain Solutions leading SCS2, 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.

2017 Senior Management Biographies (continued)

Robert Stephen Lister
President of LF Europe

Aged 61. President of LF Europe managing the Group's wholesale and distribution business in Europe. Chief Operating Officer of LF Europe since 2009 and became President in 2013. Before that, Group Chief Executive of Peter Black Holdings plc, a public company listed on the London Stock Exchange which was privatized in 2000 and part of its business was acquired by the Company in 2007. A fellow of The Institute of Chartered Accountants in England & Wales.

Roger Guy Young
Chief Human Resources Officer

Aged 54. 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. Also leads the corporate services, procurement, and global hub operations. 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.

* Effective on 1 January 2017

Sean Christopher Coxall

President of Supply Chain Solutions

Aged 53. One of three Presidents of Supply Chain Solutions leading SCS3, dealing with all the brands and specialty stores globally. 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.

Sustainability @ Li & Fung

Engaging our people, improving supply chain sustainability, responsibly managing our footprint and improving the lives of those along our supply chain and in the communities where we live and work is central to our Sustainability Strategy.

Sustainability @ Li & Fung

Sustainability is integral to our business and planning process. We set aspirational targets in accordance with best practice benchmarks, act to meet those targets, and assess and report on our progress toward achieving our goals.

Our Approach

Li & Fung operates one of the world's most extensive global supply chain networks. We design, source and deliver a diverse range of products – including apparel, beauty, accessories, furniture and household products – from a network of 15,000 suppliers in 40 economies, to over 8,000 customers globally. With over 21,000 people in more than 90 offices and 200 distribution centers, we are an asset-light organization using our extensive reach, depth of experience, market knowledge and technology to enable our customers to respond quickly to evolving consumer and production trends. We are leading the effort to digitalize our global supply chain, resulting in an end-to-end stream of synchronized supply chain data, that will allow us to improve speed, cost, working capital, inventory, sustainability and traceability for all the partners in our ecosystem.

We aim to develop and operate responsible, sustainable, agile supply chains that meet the demands of a dynamic global retail sector, while protecting and improving the lives of all those who are touched by it. Improving our environmental, social and governance (ESG) performance drives our Sustainability Strategy and we integrate sound management of ESG issues into our global operations.

Health, safety and wellbeing, climate change, resource scarcity and environmental degradation, as well as increasing demands for transparency and accountability, are drivers of change in how we do business and engage with our stakeholders. These issues pose risks and challenges that we address through our Sustainability Strategy and reporting, and our day-to-day activities. They also bring opportunities for greater supply chain transparency, improving working and environmental conditions in factories, and building sustainable communities.

Our Commitment to Disclosure

Improving our sustainability performance and enhancing our overall disclosure of information is integral to our business and to meeting evolving expectations for increased transparency. In support of the Fung Group being a signatory to the United Nations' Global Compact (UNGC) since 2002, we have been publicly disclosing our continual progress in implementing actions to support the UNGC's 10 Principles on human and labor rights, the environment and anti-corruption. In 2016, the Fung Group expanded its reporting[1] to embrace the UN's Sustainable Development Goals of No Poverty, Good Health and Wellbeing, Gender Equality, Decent Work and Economic Growth, and Climate Action.

We are a constituent of leading global sustainability indices, including the FTSE4Good Index Series and the STOXX® Global ESG Leaders/Environmental Leaders/ Social Leaders/Governance Leaders Index, and, in Hong Kong, we are a constituent member of the Hang Seng Corporate Sustainability Index Series[2] and recognized as a Caring Company.

1 Refer to the Fung Group's 2016 Communication of Progress - https://www.unglobalcompact.org/system/attachments/cop_2017/407961/original/Fung_Group_UNGC_2016_%28final%29.pdf?1501659685

2 Refer to our website for our Content Index that outlines how we address the mandatory "comply or explain" provisions and the recommended disclosures, as outlined in the Hong Kong Exchanges and Clearing Limited (HKEX)'s Listing Rules and Guidance, Appendix 27 - Environmental, Social and Governance Reporting Guide.

Our Strategy

2017 marks the eighth year of implementing our holistic Sustainability Strategy, which was introduced in 2009. The initial strategy raised our people's awareness of sustainability issues and enabled the Company to make significant progress against qualitative and quantitative targets for each of the strategy's initial 10 Commitments. We updated our strategic approach in 2014 and again in 2017, and align our actions under the following four pillars:

Operating our business transparently is essential to building sustainable supply chains and to reaching our goal of improving the lives of a billion people across our global network.

Richard Darling
Executive Director of LF Americas, Head of Government and Public Affairs and of Vendor Compliance and Sustainability

Supply Chain Sustainability
Managing risk and furthering compliance, and collaborating with the industry and other partners to raise sustainability performance, meets the demands of a dynamic global retail sector while safeguarding and enhancing the lives of workers and communities along the supply chain.

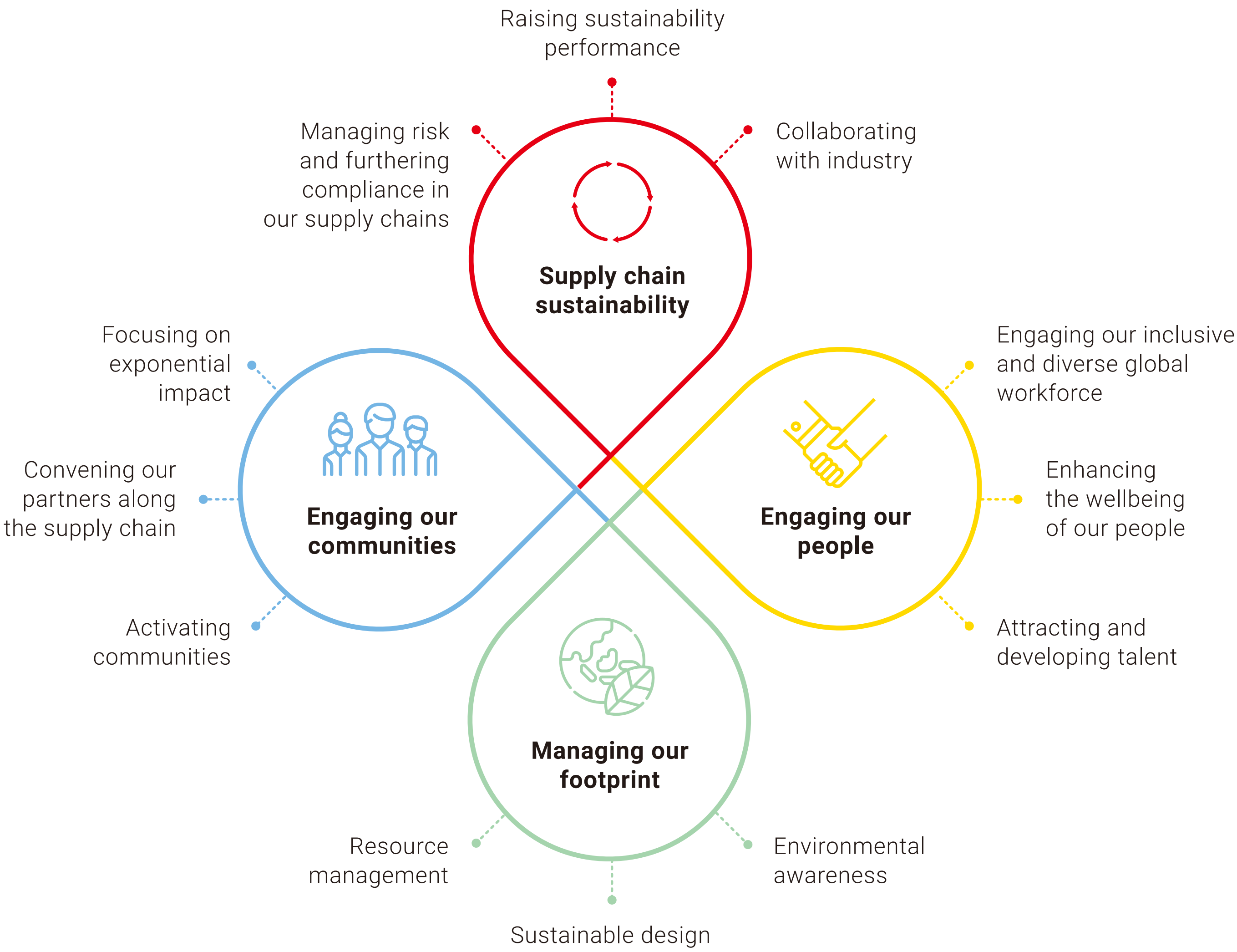
Engaging Our People
Our people are front and center of all that we do and are critical to our success. We engage and support them and are committed to their wellbeing and career development.

Engaging Our Communities
We are driven by our purpose to improve lives along the supply chain and in the communities where we live and work. We harness our strengths, global networks, knowledge and people to make scalable, sustainable impact by activating communities, convening our partners along the supply chain and focusing on innovative solutions for exponential impact.

Managing Our Footprint
We responsibly manage our resources and environmental footprint to reduce our impact by taking action within our operations to build sustainable workplaces and raising the awareness of our people to effect change.

The hybrid, solar thermal system at our manufacturing facility in Bangkok combines energy from solar thermal collectors with waste heat from an economizer unit, generating hot water for the boiler to use to produce steam for the production process. This results in energy, water and monetary savings, avoids liquid petroleum gas (LPG) consumption and reduces air and greenhouse gas (GHG) emissions.

As shown below, we act on three focus areas for each of our four strategic pillars.



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, logistics and professional expertise, and offer development opportunities at all levels.

Employees worldwide*

21,322

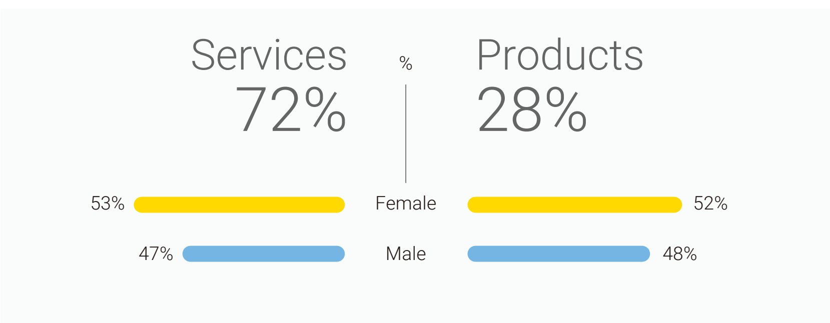
We are committed to driving a culture where our people feel valued, have a clear sense of belonging and are recognized and rewarded for their contribution.

Our purpose – to make life better for a billion people in the supply chain – is aligned with the drive and expectations of our people to serve a higher purpose. Our leaders invest time and effort to ensure that all our people feel deeply connected with our purpose and collaborate with each other, and with our customers, suppliers, industry partners and other stakeholders, to make a difference along the supply chain.

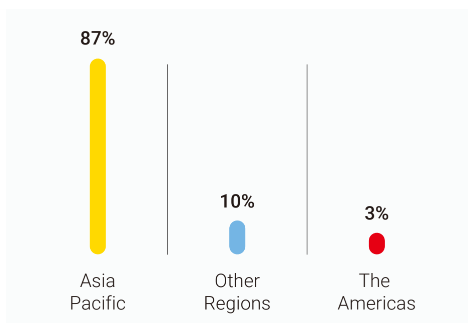
We support a high-performance culture where our people are motivated to deliver exceptional client experiences. The speed of business change is pushing performance management to be agile and flexible, requiring real-time feedback and ongoing constructive conversations on performance. We believe this focus on fueling performance in the future, rather than assessing it in the past, enables our colleagues to be productive, drive business results and reach their full potential.

Our senior management and teams around the world bring a vibrant mix of nationality, ethnicity and 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 business.

Employees by Business Segment and Gender*



Employees by Region*



* Including Continuing Operations and Discontinued Operations.

Gender Pay Ratio

We believe in equal pay for work of equal value and are pleased that our pay ratio is well balanced overall. Based on median annualized salaries for all professional colleagues, women earn 11% more than men overall. Among senior and middle management, women earn 11% less than men and among other employees, women earn 19% more in comparison to their male counterparts.

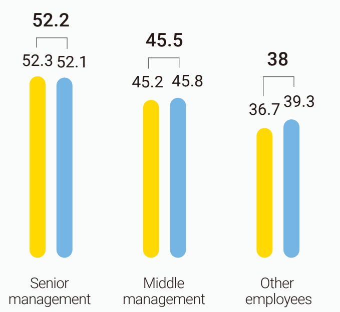
We see diversity as a source of strength and pride. Our 21,322 employees operate across 40 markets and represent over 50 nationalities. This diversity inspires innovation, enriching every aspect of our business. We are committed to ensuring an inclusive workplace, where diversity of gender, ethnicity, thought, generation, sexual orientation and ability are valued and leveraged to foster innovation and creativity.

Gender by Employee Group and Age

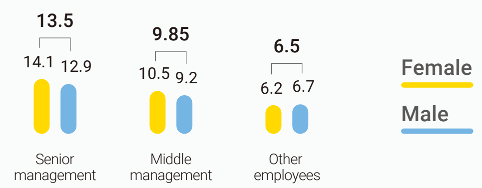
	Under 30 years of age		Between the ages of 30 and 50		Over 50 years of age	
	Female	Male	Female	Male	Female	Male
Senior management	0%	0%	43%	40%	57%	60%
Middle management	1%	1%	75%	72%	24%	27%
Other employees	23%	13%	70%	77%	7%	10%

1 99% of our full-time employees are on permanent or other contracts. For the 72% that have full-time, permanent contracts, 50% are female and 50% are male, and for the 28% on full-time, temporary or other contracts, 60% are female and 40% are male. For part-time employees on permanent contracts, 88% are female and 12% are male, and for those on other contracts, 63% are female and 36% are male.

Average Age of Employees in Years



Average Length of Service in Years



Higher median annualized salary for female colleagues

11%

Management Team by Gender[1]

Female **43%**

Male **57%**

Employees by Gender[1]

Female **53%**

Male **47%**

Age of Employees

Under 30 years of age **16%**

Between the ages of 30 and 50 **72%**

Over 50 years of age **12%**

Our business is built on long-term relationships within our teams and 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.

In recognition of our focus on innovation and people development in 2017, Human Resources Online awarded us a Bronze award for Excellence in Learning & Development, and LF Logistics received a Gold award for Excellence in Social Media and Bronze awards for Excellence in Graduate Recruitment & Development, Excellence in HR Strategic Plan and Excellence in Organization Development.

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 through our One Family internal communications platform, and our people continue to share stories, videos, photos and blogs on what these values mean to them, and how they live and integrate them into their lives and work.

We have continued to expand our brand beyond our corporate website. Our LinkedIn channel has attracted over 73,000 followers since it launched in 2016, and our Instagram and YouTube channels also continue to grow. In 2017, we launched our WeChat channel, reaching 6,000 followers. We are committed to enhancing our digital channels in both English and Chinese as a key part of telling our brand story, connecting our people and attracting and retaining the best talent.

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

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:

- Engaging our inclusive and diverse global workforce
- Enhancing the wellbeing of our people
- Attracting and developing talent

Engaging our People

Engaging our people to celebrate and support our inclusive and diverse global workforce, to connect, and to appreciate and encourage each other to thrive, is a core initiative at Li & Fung. We believe this provides an environment that is entrepreneurial, engaging and respectful, fostering a long-term commitment to the Company. In 2017, we proudly launched our Diversity & Inclusion initiative, highlighted below, to raise awareness, change perceptions and empower our people to both celebrate our diversity and engage in conversations on what it means to foster an inclusive working environment for all.

Diversity and Inclusion

In July 2017, Li & Fung launched a global Diversity and Inclusion (D&I) initiative to reinforce our culture of respect for all individuals and of valuing our differences and similarities. Our goal is to educate and raise awareness, creating a collaborative working and learning environment. As a global business, we recognize that it is critical to understand, embrace and operate in a multicultural world – both in the marketplace and in the workplace.

We believe that the workplace is both a laboratory for change and a harbinger of the world of tomorrow. Equality and openness leads to better performance outcomes in business. Making the workplace more accepting enables more creative problem solving and welcomes wider communities of talent to reach their potential and do their best work.

We are privileged to have a culturally-rich mix of people and we are honored to serve, support and provide services to a diverse community, as we strive to touch and make life better for a billion people across our global network.

At Li & Fung, diversity is an all-inclusive concept. It includes differences among gender, ethnicity, national origin, age, culture, ability, religion, socio-economic status, sexual orientation and any other attributes that truly represent an individual or group. We understand that diversity is not only about the obvious differences, but the less apparent as well. Individual lifestyles, work/life balance, interpersonal style, life experience, talent and creative passion are all factors that contribute to a person's culture or identity. We respect, value and celebrate the unique attributes, characteristics and perspectives that make each person who they are, leveraging a diverse and inclusive workforce to achieve superior business results. We have 22 "D&I Ambassadors" across 40 countries who have come together to communicate and work to help us advance our diversity journey.

We launched our initiative on our internal communication platform, One Family, with educational-themed monthly articles accompanied by informative videos to engage and foster an environment of learning and open communication about differences. Articles, which were viewed 3,760 times in the first six months of the campaign, covered the following: An Introduction to D&I at Li & Fung; Understanding Unconscious Bias; The Value of Lesbian, Gay, Bisexual, Transgender and Queer (LBGTQ) Equality in the Workplace; Women in the Workforce; Generational Diversity in the Workplace; and Cultural Etiquette. Sharing theses innovative and engaging messages and approaches on what D&I means and how to break down barriers and misperceptions, empowered our people to openly discuss how D&I enriches our culture and working environment.

In 2018, we will kick-off locally-led workshops around topics, such as those related to Unconscious Bias and LBGTQ communities, to open the doors to communication around topics that may have been previously unspoken or off-limits.

At Li & Fung, we take pride in the diversity of our talented people and believe that diverse teams make innovation possible. We are committed to educating our employees and maintaining an inclusive environment where all people are valued and respected.

Project WoW (Ways of Working) is transforming our workplaces to increase collaboration among our colleagues. This supports our Three-Year Plan focus by creating working environments that facilitate speed in work processes and communication, drive decision making, spur innovation in spaces conducive to imagination and experimentation, and adopt technologies that connect our people and our customers through digital platforms. We have empowered our people to embrace and promote this cultural shift with local WoW Change Committees and Advocates who consult and engage their colleagues not only on the overall layout of the spaces but also on adapting to the new WoW open-office work environments.

Each year we hold multiple events to share our strategy and encourage dialogue and innovative thinking across our many offices. Through annual conferences, team meetings and other events, our people connect to learn from seasoned professionals and collaborate with peers to incubate business ideas. To enable our people around the world to engage directly with our CEO and senior leaders, we also held 27 town halls in 25 cities to discuss our business priorities, performance, direction and plans.

Our One Family internal communication platform remains central to connecting our people through stories, blogs and a social feed. Our people freely share their thoughts and ideas instantly through the One Touch portal, forming communities with colleagues working in our locations around the world, who have the same interests and passions, or work in the same role. In 2017, our One Family platform received 12.5 million pageviews, an increase of 28.87% from 2016.

Valuing our people extends to appreciation events and special days for families, which we regularly organize along with the giving of awards that recognize the achievements of our people. In 2017, 3,192 employees reached anniversaries with Li & Fung of between five to 45 years and were awarded Long Service Awards. Of our people receiving awards in 2017, 50% had worked with us for 10 years or more, 20% for more than 15 years and 10% more than 20 years, including 56 colleagues with 30 years' service or more – a remarkable achievement.

Diversity is the driver of innovation. Differences of gender, race, culture, thought, generation, orientation, ability and religion are respected and celebrated in a wholly inclusive work environment.

Roger Young
Chief Human Resources Officer

Enhancing Wellbeing

The health, safety and wellbeing of our people are very important to us and guide us to ensure that our people feel safe and respected and are 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.

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 distribution centers (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. Exemplifying our commitment, our manufacturing facility in Bangkok was awarded the Excellent Establishment on Labor Relations and Welfare Award from the Ministry of Labor for the tenth year in a row.

As noted above, maintaining a respectful workplace free from discrimination and harassment of any form and providing equal opportunities for all our people, in support of international declarations on human and labor rights[2], is of utmost importance. We affirm these commitments in our Code of Conduct and Business Ethics (Code). All new employees learn about the Code during their orientation. As shared above, our D&I initiative reinforces and supports our people to live these commitments.

We also have policies and guidelines for addressing the Code that are implemented in the acquisition of new businesses and through our ongoing recruitment, training, performance assessment, disciplinary and grievance processes. As part of our Code we respect freedom of association and collective bargaining and 2% of our employees have joined unions globally.

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 2017, two incidents of fraud were reported, as outlined in 'Our commitment to good governance' section, and two grievances were reported in the United States. The grievances involved one claim by a temporary employee that disabilities could not be accommodated for a particular function in the working environment, the result of which has yet to be determined by the Equal Employment Opportunity Commission, and the other was related to unpaid wages that was investigated with a financial settlement provided. As a result of these incidents, management reinforced the importance of raising employee complaints or any disputes immediately to the appropriate human resources personnel to take necessary and appropriate measures for resolution, as outlined in our Grievance Procedure.

Visit our website to download Code of Conduct and Business Ethics.

3,192

Colleagues

with 5+ years long-service awards in 2017

1,619

Colleagues

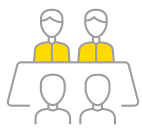
with 10+ years long-service awards in 2017

2 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.

Business Ethics & Integrity Program, 2017

19
Locations

64
Leaders certified as trainers



2,800+
colleagues and

41
participants
from 30 suppliers attended workshops

To reinforce our commitment to operating our business ethically and with integrity, we established a working group of representatives from business divisions and our legal, compliance and learning and development teams. In 2017, our Business Ethics and Integrity Education Working Group rolled out Company-wide Business Ethics & Integrity Workshops in 19 locations, involving over 2,800 colleagues and 41 participants from 30 of our suppliers. Through presentations, case studies and group exercises, our colleagues learned how to better recognize, understand and steer clear of the "high risk" areas involving various integrity issues that could have a negative reputational impact. The workshops equipped our colleagues with skills to guide them in taking appropriate courses of action, and aligned our suppliers to both our Company's business practices and our customers' standards. To sustain this important initiative, we also rolled out train-the-trainer programs in Hong Kong, Shanghai, Shenzhen and Taipei, and certified 64 leaders as trainers to conduct learning sessions in various locations.

Across our global network, we take measures to ensure our facilities are safe and fit for purpose and we conduct regular safety, fire and emergency response drills. In 2017, there were no fatalities in our workplaces globally.

All our manufacturing and logistics facilities have also 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)[3]. 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, the Philippines[4], Singapore and Thailand. Our DC in Singapore was awarded the BizSAFE STAR Certificate from the Singapore Workplace Safety & Health Council. Our Trowbridge manufacturing facility in the UK meets RIDDOR[5] standards and the Tonawanda facility in the US exceeds the standards of the OSH Act[6]. 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 2017 National Outstanding Award on OHS and Environment from the Ministry of Labor for the fifth consecutive year. As of December 2017, our Bangkok, Dongguan, Jakarta and Trowbridge facilities have not had a lost time injury for 918, 122, 644 and 88 days, respectively.

3 Our facilities in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge are audited to meet SMETA requirements.
4 Our DC in the Philippines will renew its certification to OHSAS 18001 in 2018 as it expired in June 2017.
5 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.
6 Occupational Safety and Health (OSH) Act of 1970, 29 CFR 1910 Occupational Safety and Health.

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 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.

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

Attracting and Developing Talent

Attracting and developing the best skills and talent is essential to the development of our business. In 2017, we significantly strengthened our digital presence on LinkedIn, Instagram, Facebook and WeChat. This has helped us to engage the best local and international talent from all over the world. We have been using LinkedIn as part of our recruitment strategy since 2015, and in 2017 we received 22,843 job applications through the platform. In early 2018, we started incorporating artificial intelligence as part of our recruitment strategy, through our HireFit predictive model, which we anticipate will change the face of the recruitment process as we move forward.

In addition to attracting external talent, we encourage internal transfer opportunities for our people who wish to enhance their skills or develop new competencies. In 2017, 5,541 people were newly hired, representing an average new hire rate of 15% across the Company; 6% of our open positions were filled by existing employees and 12% were through referrals. As part of our ongoing 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. In line with the APQC Benchmark[7] Industry Target of 14% for large, complex, multinational companies, our voluntary turnover rate among professional staff was 14% in 2017.

We believe building a strong culture of learning plays a vital role in the sustainable evolution of our Company.

Voluntary turnover among professional employees by gender, region, age group and employee category

Overall

14%

Gender

Female 16%

Male 12%

Geographic region

Asia Pacific 14%

Americas 11%

Europe, Middle East and Africa 14%

Age group

Over 50 5%

30 – 50 13%

Under 30 26%

Employment category

Permanent 12%

Contract 20%

Temporary 23%

7 http://www.apqc.org/benchmarking

15%
increase over 2016
In-house learning programs in 2017

15,400+
Learning resources available

12%
increase over 2016
Online learning resources in 2017

To support our people to leverage their talents and develop their skills and competencies, we provide development programs that focus on leadership, broadening professional knowledge and technical skills, and enhancing productivity. In 2017, average training hours increased from 7 to 7.8 hours per employee, and on average:

- Managers attended 7.2 hours of training, with women receiving 9 hours and men 6 hours of training
- Employees attended 7.8 hours of training, with women receiving 10 hours and men 5 hours of training

We also provide flexible learning channels from online and classroom courses, on-the-job experience, and networking and mentoring, to cross-border opportunities. In 2017, our learning and sharing platforms were accessed a total of 159,247 times. For those accessing these resources from our management team, 55% were female and 45% male, and for our employees, 62% were female and 38% male. In 2017, 17,770 of our employees attended and/or accessed our learning resources, which include 2,517 learning programs and 15,476 online learning resources. This represents an increase of 15% in the number of programs and 12% in the number of learning resources available in 2017 over 2016.

In addition, our newly launched Virtual Classroom, which was accessed by 6,686 people, provides a teaching and learning environment where participants can interact, and view and discuss presentations online through video conferencing or live video streaming, enabling multiple users to be connected at the same time through the Internet.

Building on our formalized learning and development activities, our people also use a robust learning platform, known as "MyCareer", which enables them to learn at their own pace. MyCareer covers career development, skill training, expertise sharing and personal and management development, providing 15,476 learning resources that include e-books, e-modules, learning articles, videos, webinars and podcasts. Our Learning Site, which had 25,444 page views in total in 2017, is another intranet platform with additional learning resources for our colleagues around the globe.

The Learning Week campaign, which was started in 2016 to reach our global colleagues and expand our approach to innovative learning, is one of our most well-received programs. In 2017, we provided face-to-face, interactive and innovative learning to over 1,300 of our people in five locations globally. While embracing digital learning and gamification as the core approach of the program, we delivered a number of

Participants in The Kitchen's open innovation challenge.

learning sessions that brought the latest trends in merchandising resources, equipping our merchandising teams with technical skills. Interactive sessions, such as the Management Café, have provided a peer learning environment for our colleagues to share their best practices and practise skills learned in the sessions. We have received very positive feedback from participants that these sessions have helped boost their creativity and improved the way they share ideas. The sessions also equip our local office representatives with techniques to cascade the learning sessions to their teams, sustaining a learning culture over the longer term. Through these programs, we have also successfully fostered colleagues' awareness of digital learning and ability to use digital platforms to enhance work productivity.

The Digital Learning Exhibition, a week-long, immersive and experiential event in 2017 showcasing how technology can accelerate learning, attracted 683 colleagues in Hong Kong and 2,764 online visits from our colleagues globally. Feedback received was very positive with visitors giving the exhibition a score of 4.7 out of 5 on average. It involved multiple zones with each demonstrating the following, different types of technology:

- Smart check-in and check-out system to track attendance at training workshops
- App Center introducing several mobile learning apps that were developed inhouse for our colleagues
- Interactive, 360 tour for introducing different business divisions to new hires during induction programs
- Product and operational process discovery experiences using augmented reality technology

The learning sessions are all very practical. Most of the skills acquired through the workshops can be applied in our daily work.

Vivian Keung
General Manager, Hong Kong Office

- Global, live video streaming of iCafé, an informal gathering of colleagues to share and learn from one another about the latest digital tools, work habits, methods or trendy applications that can boost productivity in the workplace, and of the Productivity Upskill Program (PUP) that provides support for using new Microsoft Office programs
- Game zone showcasing the gamification approach to learning
- Virtual reality (VR) safety simulation and exhibition tour demonstrating how VR technology could be used in training contexts

Each year, we continue to 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 and functional leaders. It includes corporate orientation and training, as well as rotational assignments in the Fung Group's core businesses, operational support functions and business education program. Thirteen Management Associates participated in the 2017 intake.

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. Over 2017, more than 975 of our global team participated in leadership development training.

We revised and updated our leadership competency model in 2017 to align with the themes of our Three-Year Plan – speed, innovation and digitalization. By using a competency-based approach to leadership, we can better identify and develop our talent to excel in their performance and become the next generation of leaders. We also organized focused workshops to help our senior managers identify and develop high potentials based on established criteria and processes. Below is a summary of these six refreshed competencies that are defined for five job levels across the Company.

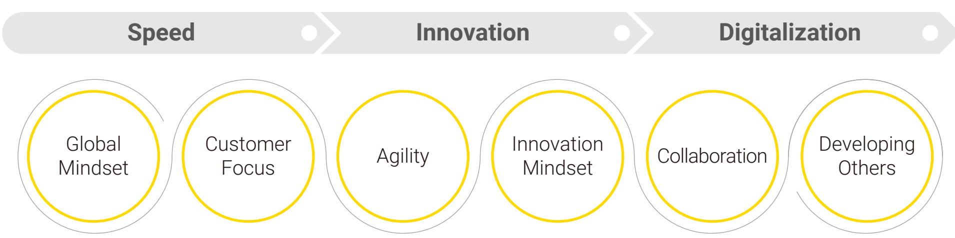
We continue to implement our tailored leadership roadmap for different leadership levels, with the support of the Fung Academy. The Leadership Essentials program held three classes during the year focused on building core leadership competencies among high potential junior managers.

The "Leading Self, Leading Others" (LSLO) leadership program, which has been evolving since 2015, continued to equip senior and mid-level managers with skills to take on the role of people managers. This year, 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.

In November 2017, we marked the 50th session of the LSLO initiative in Shanghai and reached the milestone of training over 1,000 of our leaders globally. Over the year, we held 29 of the 2-day LSLO workshops, engaging 419 of our leaders in 13 cities[8]. We are also providing support for our LSLO alumni to continue their leadership learning journey through an e-learning platform called The Big Think, and half-day workshops to enhance specific skills such as Coaching Skills for Managers and Handling Challenging Conversations. These initiatives will be rolled out to more locations going forward.

Refreshed Leadership Competencies

To align with our Three-Year Plan themes of speed, innovation and digitalization, we updated our leadership competency model to incorporate the skill sets below.



8 LSLO workshops were held in Bangkok, Hong Kong, Irvine, Istanbul, New York, Norderstedt, Paris, London, Panyu, Shah Alam, Shanghai, Shenzhen and Taipei.

Professional and Technical Skills

Enhancing skills and broadening knowledge, and building the capacity of our teams to address opportunities in an evolving business landscape, are important parts of our people strategy. Providing innovative learning opportunities is therefore key to fostering an engaging learning environment and equipping our colleagues with specific skills for them to continue to excel.

This year, our newly-launched Consultative Selling workshop was designed to take business development from a focus on closing the sale to the macro and sustainable B2B level and create value and impact for our customers' business. By focusing on our customers' challenges, our merchandising colleagues are equipped with a consultative mindset, models, tools and skills to work as business partners and provide solutions for our customers and to help meet their business goals. A total of 83 divisional/merchandising managers (ten in Hong Kong, 42 in Shanghai and 39 in Taiwan) have participated in these workshops to date.

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). In 2017, we sponsored ten of our colleagues to attend the SDC Certificate of Colour Management of Textiles Program and to receive this certification. Apart from the certification program, we also ran seminars that focused on driving speed and innovation around color management and the dyeing of textiles. 245 colleagues attended these seminars and learned from external experts how to apply digital printing, new techniques for textile dyeing, visual assessments of colored textiles and digitalized color data in the design and approval processes. They gained valuable insight into how improvements in efficiency and in accurate color management could speed up product development and production delivery.

We partnered with Trendalytics, a product intelligence platform that provides insights on consumers, trends, pricing and competitors, to create an online curriculum focused on the latest trends, brands and market intelligence. Our product development and merchandising colleagues are able to leverage this information and create customized dashboards for customers. A series of 12 webinars, focusing on driving speed and providing the right product for customers, was rolled out this year to over 349 colleagues in 15 cities[9]. In addition, Trendalytics' Trend Intelligence Reports were shared with our global colleagues, providing them with access to a curated archive of data-driven trend alerts and reports on topics such as Accessories, Beauty, Fashion Week, Footwear, Menswear, Womenswear and Trendalytics How-to Tips.

In addition to our more formalized learning and development activities, we also created and launched:

- Online books and platforms to support colleagues to learn anytime anywhere, including a new Digital Sweater Handbook covering essential information related to fiber, yarn, dyeing, knitting, assembly and quality for knitwear

- On-demand, business skill development resources covering 41 essential business topics

9 Trendalytics' webinars were rolled out in Bangkok, Guatemala City, Hong Kong, Istanbul, Lahore, Manchester, New York, Oporto, Oxton, Sao Paulo, Shenzhen, Shanghai, Seoul, Taipei and Trowbridge.

+20%

increase in daily operational performance of teams in the **2017 Basic Management Program**

- Peer Learning Clubs for colleagues to learn the same topic together and support each other's development by sharing insights, experience and feedback on applying what they have learned on the job. Facilitation training was provided to Club facilitators to help them lead the sessions and support members to achieve their learning objectives and development goals
- Sessions with industry best practice experts to share their insights and research to equip our global human resources colleagues with the necessary skills and knowledge to support the Company's transformation

The Basic Management Program (BMP), a new series of two-day workshops, engages hundreds of our country-level supervisors in participatory modules with practical cases and scenarios to build skills, ranging from operational control, problem solving and organizing to action planning. As a result of applying what they learned in the BMP, business leaders across four of our Southeast Asian hub countries reported that they have observed an average improvement of 20% in the daily operational performance of their teams.

To equip our teams with the digital, technical and managerial skills needed to successfully embrace change and transform the business under our Three-Year Plan, we launched customized, experiential training sessions to empower our people and create an environment conducive for addressing challenges, managing stress positively, openly expressing emotions and building resilience. Known collectively as 'The Hero's Journey', colleagues focus on themselves as the protagonist – the Hero – of their own growth as they experience different modules and exercises. Topics covered range from self-awareness, stress management, resilience and responding to challenges, to emotional agility and team bonding, to the psychological dynamics of personal change, motivation and positive psychology. In a survey of the over 100 participants in the pilot sessions in our Southeast Asian hubs, an average score of 9 out of 10 points was received when they were asked to what extent the experience improved their ability to manage stress, positively embrace change or understand and master their emotions, among other things.

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

Innovation and Experimentation Programs

Innovation is critical to staying competitive in a rapidly-changing global market and is an essential element of our Three-Year Plan. Collaborative learning is essential to develop a culture of innovation.

In 2017, we implemented the following new initiatives that are fundamentally changing how we operate our business and engage our stakeholders along the value chain:

- We launched five sessions of the Innovative Manufacturing Series in seven locations, bringing the latest, industry-leading technology and innovations to support our people to integrate speed, innovation and digitalization into their work and business development. The 556 participants learned how to use practical tools to address these opportunities in the areas of digital printing and applications for textiles, innovative merino product development and wool trends, innovative instant thread color digital solutions, smart home – smart furniture and virtual color digital application in apparel and home products

- Building capability within our business units by providing coaching and introducing design thinking and rapid prototyping to solve business issues. We have seen this result in substantial increases in productivity, either in business processes, or in the way of working with our customers. For example, one collaboration shortened the fashion calendar from 40 to 24 weeks, saving 40% of the time it used to take to get products from concept to stores

- Providing research support for business units to innovate in strategy development. For example, research on the shopping habits of millennials challenged assumptions and perceptions about how they shop and make purchasing decisions, thereby helping business units strategize new, appropriately-targeted product or service offerings for our customers

- Helping to experiment concepts for digitalizing the supply chain that connect the production line with the ordering system so the factory can produce semi-customized products on demand

- Using technology to develop meaningful small products for our customers by rethinking and exploring all aspects of product development. By experimenting with material selection and 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. One of the products the team successfully created for an entertainment group is pending patent

- Hosting a hackathon, known as "Hack the Runway", that connected us to a community of innovators, machine-learning gurus, data scientists, user experience (UX) and user interface (UI) designers and application experts to resolve business issues. Over the three-day event, 95 internal and external participants were tasked to innovate and reshape the present fashion sourcing process working on four real challenges that resulted in 16 prototypes and presentations

- Holding a "Hello Design Thinking!" workshop that was designed to promote the principles and methodology of design thinking and its application to resolve business issues. Around 50 participants took part in the workshop, and almost all of the participants were highly confident (8 out of 10) that they could apply design thinking at work. More will be run in 2018

- Training participants to manipulate and visualize data using real case studies from our operations, as well as introducing them to big data and machine learning, under the Data Science program

There are very quick ways to prototype, and get external feedback on what we are doing. Some of the responses that we received in the Hackathon actually changed my mind on how we should work on these solutions.

Manuel Fernandez
Group Chief Technology Officer

- Implementing a Business Simulation program to build business resilience and skills for collaborating through the gamification of simulated challenges and issues to be resolved within the sourcing business

- Extending learning about exponential technology and methods that might disrupt our industry through Professor Haim's Exponential Technology Program for middle and senior managers

We continued our collaboration with Singularity University for our senior leaders to join the Singularity University Digital Education program to learn how to accelerate and implement innovative change through identifying disruptive forces, understanding exponential technologies and practising with innovation tools and methodologies.

In 2017, the Clayton Christensen Institute for Disruptive Innovation and the Fung Group formed a five-year partnership to explore how global market shifts and rapidly advancing technology are disrupting industries and paving the way for supply chains of the future. One of our colleagues was seconded as a visiting research fellow to the Institute, and has been working closely with Institute researchers as well as Professor Clayton Christensen to merge leading theoretical frameworks with the insights of industry executives and practitioners with deep field experience.

Our Design Community, which was formed in 2015 and originally brought over 290 of our designers together to share experience and collaborate to boost innovation within the Company, now engages over 770 design or product development colleagues in over 43 locations[10] across our global network.

We also accelerated and scaled our open innovation initiatives in 2017. We believe innovation can and should come from all our colleagues and the wørkshop, our in-house innovation team, is focused on enabling every colleague, team and operation across the Company to feel inspired and supported to express their full innovative selves.

The Kitchen, our award-winning crowdsourcing platform[11], continues from strength to strength with over 2,500 colleagues collaborating on 600 ideas in 2017. As the platform matured over 2017, we saw a marked increase in the quality of ideas and execution. The relevancy of ideas crowdsourced not only increased by 23%, the number of ideas going from paper to prototype increased by an incredible 178%. The Kitchen was also used externally to collaborate with our customers to bring fresh and innovative product ideas to market. Our work on The Kitchen was also recognized in two external publications, Forbes[12] and MIT Sloan Management Review[13].

10 Design Communities are established in Bangkok, Barcelona, Bremerhaven, Chicago, Den Bosch, Dhaka, Dongguan, Florence, Hangzhou, Hanoi, Ho Chi Minh City, Hong Kong, Huddersfield, Irvine, Issaquah, Istanbul, Lahore, Leicester, Liuyang, London, Lucca, Lyons, Manchester, New Delhi, New York, Ningbo, Norderstedt, Oporto, Oxton, Paris, Panyu, Pasig City\Metro Manila, Pathumthani, Pulheim, Putian, San Diego, Seoul, Shanghai, Shenzhen, Sydney, Taipei, Trowbridge and Wenzhou.

11 Li & Fung's launch of The Kitchen was awarded the Ignite 2017, Launch of the Year award by Spigit - https://www.spigit.com/

12 https://www.forbes.com/sites/robertbtucker/2017/07/06/cultivating-a-risk-taking-culture-inside-li-fungs-innovation-journey/#37c1fb9a7e14

13 https://sloanreview.mit.edu/article/developing-innovative-solutions-through-internal-crowdsourcing/

The Guerrilla Sessions, a series of experiences to help innovators around Li & Fung connect, scaled digitally, physically and thematically to help expand our reach and engagement. Not only did we conduct 23 live sessions, we also launched live streams over Facebook as well as expanded our market coverage with our first stop in Shanghai, China. We also launched a series of interactive "maker" sessions on coding Arduino boards and 3D printing.

In 2017, we continued our focus on building and fostering a community of innovators. Within Li & Fung, over 700 colleagues engage on our Slack channel to exchange and collaborate on innovative ideas. Externally, we are also building an ecosystem of collaborators. From early stage startups to large multinationals, we are convening and creating a community of innovators to further accelerate our goal of creating a culture of open innovation at Li & Fung.

Looking Ahead

We work in a fast-paced, highly competitive industry with ever-changing demands as we build the digital supply chain of the future. Our people, therefore, must be equipped with the necessary skills to drive a client-focused approach now and into the future. We aim to do this by creating a culture of continuous professional development and adaptability.

Going forward, our key priorities include strengthening our culture and people practices in line with purpose and values, revising our performance management to support our Three-Year Plan and new Ways of Working (WoW) by adopting a forward-looking approach that aligns learning, career and leadership development with achieving our business objectives. Our aim is to enhance our speed and agility to adapt to an evolving world of work through a continued focus on innovation, experimentation and transformation.

Our Supply Chain

We partner with our customers and suppliers to raise the sustainability performance of the supply chain.

Our Supply Chain

We are building a digital platform with end-to-end visibility for customers and suppliers, a key element of the supply chain of the future.

Top five sourcing countries

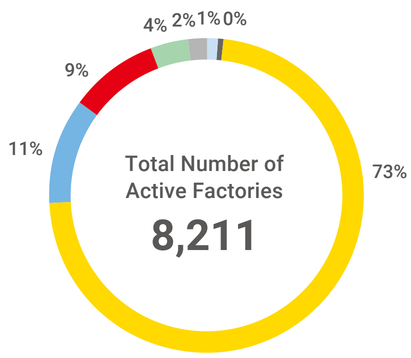
- China
- Vietnam
- Bangladesh
- India
- Indonesia

We convene the global supply chain, creating customized end-to-end supply chain and logistic solutions for global brands and retailers. We design, source and deliver a diverse range of products – including apparel, beauty, accessories, furniture and household products, among others – from a network of 15,000 suppliers in 40 economies, to over 8,000 customers globally.

Our priority is to develop and operate responsible, sustainable and agile supply chains that meet the demands of a dynamic global retail sector while safeguarding and enhancing the lives of all those who are touched by it. We aim to make lives better for a billion people along the supply chain.

In 2017, we sourced from 8,211 factories. 80% of our sourcing unit volume is concentrated in 20% of these factories, with whom we have long-term relationships. Our key sourcing markets remain: China, Vietnam, Bangladesh, India and Indonesia.

Number and Percentage of Active Factories[1] by Region



China	6,032	73%
South Asia	863	11%
Southeast Asia	756	9%
Europe	342	4%
North Asia	134	2%
Americas	45	1%
Others	39	0%

1 Active factories had orders shipped within 24 months prior to 31 December 2017.

Our Approach

We manage a wide range of requirements as a result of dealing with thousands of customers, suppliers, product categories and geographies. In some cases, customers have specific social and environmental compliance requirements, whereas others ask us to guide them in determining the most relevant standards and practices. This diversity must be managed within the overriding context of our supply chain sustainability initiatives that focus on:

- Monitoring compliance with basic requirements related to health and safety, labor and the environment, while managing risk in supply chains that run through economies with varied developmental conditions, including extreme poverty, weak institutions and governance, and stressed ecosystems

- Improving the sustainability performance of our suppliers to meet changing demands from global retailers and consumers, evolving laws and regulations, and emerging aspirations of workers and communities along the supply chain

Our social and environmental standards are aligned with the United Nations (UN) Universal Declaration of Human Rights, and the International Labour Organization (ILO)'s Core Conventions and legal requirements. Meeting these is not enough, given mounting global expectations around the implementation of actions to address the Paris Climate Agreement on Climate Change, the UN 2030 Agenda for Sustainable Development and other international and industry frameworks. We recognize our supply chain strategies must be geared to manage risk and compliance reflected in today's standards, but also to drive continuous improvement in supply chain sustainability.

Addressing the challenges and opportunities in our supply chain is therefore integral to Li & Fung's Sustainability Strategy. Our supply chain initiatives focus on three areas:

- Managing risk and furthering compliance in our supply chains

- Raising sustainability performance

- Collaborating with industry

Li & Fung is committed to the principles of good governance with an emphasis on risk mitigation, transparency and independence. Our Vendor Compliance and Sustainability (VCS) team leads supply chain compliance and preserves its independence from our sourcing teams by reporting directly to the Group Chairman. The team is responsible for aligning supply chain management with industry standards, protocols and methodologies, and for tracking and reporting on social and environmental compliance. The data generated guides sourcing teams on factory selection and risk elimination. The team also works in conjunction with the Corporate Compliance team to ensure the consistent application of protocols and approaches to assurance, reporting and transparency.

Increasingly, we are using data and advanced analytics as well as new technologies to manage risk and drive improvements along the supply chain. Our Three-Year Plan's focus on speed, innovation and digitalization also underpins our initiative to improve our visibility into the supply chain as well as accelerate our efforts to further sustainability.

Managing Risk and Compliance

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

Supplier risk assessment starts with Li & Fung's Supplier Code of Conduct. This is our supplier engagement document and it outlines the minimum standards required in accordance with the ILO's Core Conventions, the California Transparency in Supply Chains Act, the UK Modern Slavery Act and local laws, for human and labor rights, 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 supported by a package of information available in multiple languages, including Guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations. Globally, we offer regular onboarding training to new factories and our own business units to ensure they understand the Code of Conduct and the consequences of non-compliance.

Visit our website to learn more about our Supplier Code of Conduct.

Factories in our supply base, or those wishing to join, are assessed through a global process that includes an audit and monitoring against the requirements of our Code of Conduct. They are required to address timebound corrective actions if necessary, and commit to make technical improvements to production, improve the sustainability of their operations and operate in a transparent manner at all times.

Compliance against the Code of Conduct is assessed by Li & Fung as well as external audit firms approved by us or our customers and/or independent industry organizations. The audits may be unannounced, semi-announced or announced, depending on the requirements of our customers. Adding the capabilities and resources of our appointed third-party audit firms to our own has increased our visibility into our supply chain. We are also establishing a stronger and more consistent methodology in our auditing program by regularly hosting joint training sessions with our third-party auditors.

Li & Fung measures overall supplier performance through our internal rating system for tracking improvement. When non-compliance issues are identified, the factory is required to commit to rectifying the issue through a Corrective Action Plan, with varying timelines for remediation from immediately to three or six months, depending on the severity of the issue. Our rating criteria and related approval periods for conducting business with Li & Fung are outlined on the next page.

- A-and B-rated factories may have one or more non-critical issues identified; A-rated issues are "approaching compliance" and those that are B-rated have "improvement required". Both have approval periods of 24 months with spot checks conducted in between approval periods

- C-rated factories have one or more critical issues identified and have an approval period of 12 months; generally, C issues are those identified issues which require financial investment or a longer period to remediate and sustain

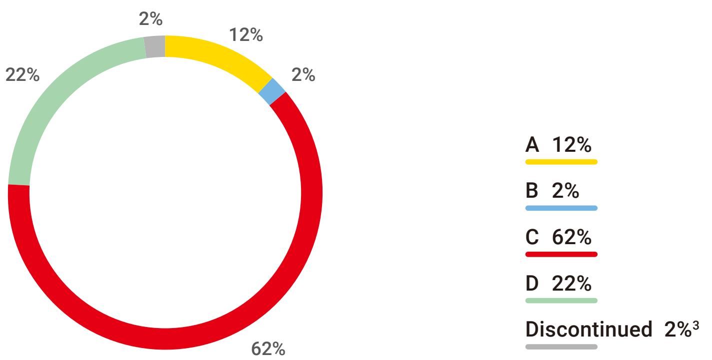
- D-rated factories have one or more severe issues identified and have an approval period of six months

- Factories that have one or more zero tolerance issues identified are discontinued; business is terminated with a responsible exit plan

Globally, our data show the most frequent areas of non-compliance relate to the payment of social benefits and safety, as well as excessive overtime and chemical management, which are common issues in Asia, and China in particular, where a large part of our sourcing is conducted.

In 2017, we expanded our global audit equivalency program, which allows factories to submit a single audit report to us from a list of certified standards (including Better Work, Fair Labor Association and Business Social Compliance Initiative). This program aims to reduce the resources allocated by suppliers on duplicative audits and follow up for multiple customers in the same factory and supports factories to focus on improving their compliance based on one, widely-accepted standard. Factories approved under the audit equivalency program receive an increased number of unannounced spot checks through our assurance program. As of December 2017, of the 234 factories identified to have critical issues during the year, 98 factories have completed remediation, and 136 are in progress. This has led to a higher-than-average factory downgrading in ratings in 2017 compared to previous years[4].

Factory Compliance Ratings Aggregated Globally[2]



2 Based on active factories rated by Li & Fung and third parties with orders shipped within 24 months prior to 31 December 2017.
3 Represents the percentage of factories with whom we discontinued business in 2017.
4 As a result of these initiatives, our factory compliance rating results in 2017 are not directly comparable with our 2016 global compliance ratings, which were disclosed in Annual Report 2016.

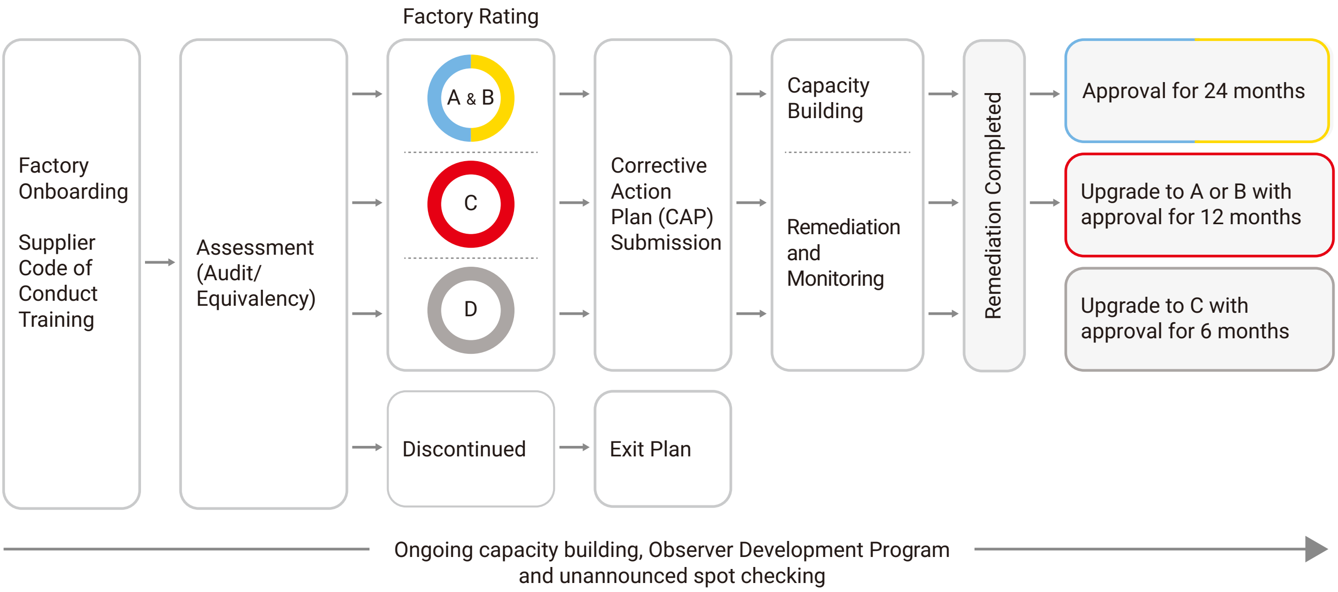
While auditing is a widely accepted and important tool for monitoring factory compliance, it must go hand-in hand with other tools such as remediation, with a focus on prevention, strong management systems and continuous improvement. This 'equal partnership' approach encourages factories to be open and transparent on their issues and engage in joint-problem solving and capacity building.

With our ongoing commitment to improve the quality of our factory base, we developed a policy to steer business towards higher-performing factories and to adopt more robust entry requirements for new factories, requiring an audit rating of C or higher. To support this policy, we broadened our audit-based model to include a stronger focus on remediation that allows longer timelines to address the root-causes of noncompliance issues and the adoption of preventive measures.

We also revised our Guidelines for meeting our Supplier Code of Conduct to reflect this policy and our more stringent rating system, as well as our commitment to building and fire safety under the Bangladesh Accord on Fire and Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance). Furthermore, any new factory entering our supply chain in Bangladesh must now also have prior approval by the Accord or the Alliance.

The specific steps of the remediation process vary according to the severity of the issue. In general, non-compliances are identified through audits or other means and then discussed with the factory. The factory develops a corrective action plan with a root-cause analysis and focus on prevention. We monitor and support the factory improvement progress and verify the remediation of issues. The factory undergoes a final audit and must achieve a C-rating or higher to receive new business with Li & Fung. Where zero tolerance issues are identified, we terminate business with the factory and agree on a responsible exit plan with the customer. The diagram below outlines the key elements of our audit, remediation and continuous improvement process.

Our Continuous Improvement Model



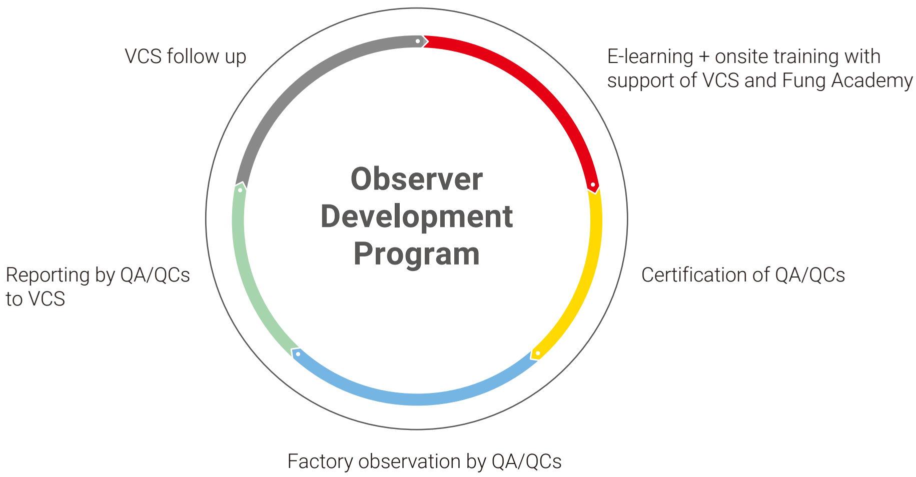
Observer Development Program

Part of our continued focus on deepening our audit and assessment process includes our Observer Development Program (ODP). The program trains and certifies our quality assurance and control (QA/QC) teams – many of whom visit suppliers daily or weekly in the normal course of their duties – to identify signs of flagrant non-compliance issues. The QA/QC teams also work with factory management to follow up on remediation measures, and their presence onsite supports both the factory and the vendor compliance team.

To scale the training coverage of our QA/QC personnel, we launched a new e-learning program in 2017, allowing participants to learn at their own pace and participate in the training from anywhere in the world. The e-learning is combined with two to three days of onsite, practical training in identifying observable, flagrant non-compliance issues. The program is also open to Li & Fung business leaders as part of owning and integrating compliance into responsible sourcing. More than half of our global QA/QC staff have been certified by this program at the close of 2017.

Continuous monitoring through our ODP, by our sourcing and compliance teams, provides factories with ongoing support to remediate other issues and also helps us to identify one-off incidents that may occur outside of the assessment cycle. When such issues occur, an investigation and remediation process is launched. At all times our overriding concern is to protect the workers in the factory, reduce the risk, and responsibly support the factory for business continuity.

Observer Development Program



To support our efforts in managing risk and compliance, we renewed our partnership agreement with the ILO and the International Finance Corporation (IFC)'s Better Work program to cover 160 factories in Vietnam, Cambodia, Haiti, Indonesia and Nicaragua. Independent assessments by Better Work indicate this program has helped to prevent abusive practices (e.g. forced labor, verbal abuse, sexual harassment), curb excessive overtime and close the gender pay gap.

As we progressively digitize our supply chain, and aggregate more reported, streamed and third-party data from our supplier network, we are in a better position to use advanced and predictive analytics in factory selection, monitoring and follow-up processes. Working with the Fung Academy, we have developed tools that use both internal and external data to identify supply chain risk, and that will help to increasingly predict incidents in the supply chain before they occur. Our objective is that improved data will deliver a more accurate picture of supply chain risk and opportunity, while helping suppliers and customers proactively address risk points and raise sustainability performance.

Total Number of Colleagues Trained

1,629

Internal Awareness Training

In 2017, we launched a new e-learning tool for our employees to raise awareness on the value-add of sustainability with country and product specific examples. 80% of mid to senior level employees in key business units in Hong Kong and China were trained and the program is now being extended to other sourcing markets. We also worked closely with our human resource teams to ensure our sustainability initiatives are part of the new employee orientation. The long-term aim of the training is to better harmonize business and sustainability performance along the supply chain.

In 2017, we trained 1,629 of our colleagues on topics related to:

Labor Practices

Health and Safety

Environmental Sustainability

Security Compliance

Capacity Building

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

Of the over 500 training sessions organized in 2017, the following number of sessions were held per topic area:

105 sessions for Labor Practices

30 sessions for Health & Safety

58 sessions for Environmental Sustainability

24 sessions for Security Practices

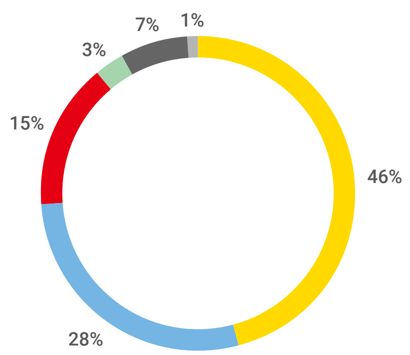
7 sessions for Risk Assessment

279 sessions on Other topics[5]

Training was attended by 4,984 suppliers and 1,629 colleagues.

This year we updated our capacity-building programs to offer a more modular training package that can respond to specific factory needs. Based on a personalized, pre-training assessment, factories can choose and combine services from a menu of 22 shorter training modules directed at the root of non-compliance issues, or from a list of six programs that more extensively cover a specific issue. These focus on labor practices, human resource management systems, health and safety, environmental sustainability, risk assessment and security.

Regional Distribution of Training Participants in 2017[6]



South Asia	3,030	46%
China	1,881	28%
Southeast Asia	1,019	15%
Europe	194	3%
North Asia	432	7%
Americas	57	1%

5 Includes training on supplier onboarding, human resource management, conflict minerals, social dialogue, etc.
6 Includes training for suppliers, factories and Li & Fung colleagues on general topics as well as specialized training provided at cost to suppliers.

Total Number of Training Sessions

503

Total Number of Participants

6,613

Sustainability Resource Center

The Li & Fung Sustainability Resource Center is an online platform open to all our suppliers and factories, providing them with access to an extensive library of compliance improvement programs, toolkits and sustainability training and resources.

The website houses all our learning videos, including the core compliance videos that are also publicly available on YouTube[7].

4,714
Website Visits

25,962
Page Views

3,562
Resource Downloads

1,432
Document/ Video Views

2,130
Document/ Video Downloads

14 videos are available in multiple languages, covering the following topics:

- Good Governance
- Manufacturing Excellence
- Underage Labor Management
- Working Hours Management

Separate videos targeted to Managers and to Workers include:

- Fire Safety
- Chemical Safety
- Electrical Safety
- Worker-Management Relationship
- Energy Efficiency

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

- Occupational Health and Safety
- Building Safety Management
- Fire Safety Management
- Hazard Identification and Risk Assessment
- Employee Relations
- Workforce Planning

7 https://www.youtube.com/channel/UcalV_MGCkl0prY88YhpEaLg

Raising Sustainability Performance

We work with our customers, suppliers and industry partners to further sustainability by focusing on managing risk and improving performance in the supply chain, adopting standards and best practices[8], and providing sustainable design, manufacturing, product and packaging options. We aim to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Accelerating the adoption of virtual design and sampling into our sourcing processes is critical to transforming our supply chain to achieve our Three-Year Plan priorities of speed, innovation, and digitalization. Not only are these innovations helping us to share concepts, perfect designs, select materials and tweak product attributes quickly, we also avoid environmental impacts from travel and transportation and reduce wastage from sample and product production. We have introduced virtual design and sampling to key customers and look forward to expanding this innovative, effective and sustainable sourcing solution going forward.

Some of the ways we help customers source items with sustainability attributes include:

- garments that meet environmental or organic standards or comprise materials that are recycled or meet sustainable sourcing standards
- beauty products that are biodegradable, not tested on animals and free of silicones, sulphates, parabens and colorants, and/or incorporate ingredients that are certified to organic, community trade, HALAL or RSPO[9] standards
- household items, furniture and packaging made from natural materials and fibers or that are recycled, Forest Stewardship Council™ (FSC™)[10] or Programme for the Endorsement of Forest Certification (PEFC)-certified, and meet the chain-of-custody requirements where applicable[11]
- packaging that is Forest Stewardship Council™ (FSC™)-certified[12] or made of recycled materials

Visit our website to download more examples and details of how we source items with sustainability attributes.

We are actively engaged with factories in our supply chain to support them in their journey to further the sustainability of their operations. As outlined below, this ranges from enhancing dialogue between management and workers to engaging directly with workers through smartphone applications to our lean manufacturing program designed to enhance efficiencies and improve productivity in factories. We are also taking increased steps to address and reduce the impact of our supply chain's environmental footprint with a focus on energy efficiency, reducing emissions, water and resource conservation and waste management. Our environmental program targets both impacts at the facility and supplier level, as well as at the product level.

8 This includes monitoring compliance with relevant health and safety, advertising, labelling and privacy requirements relating to products sourced for our customers and following up on any matters of redress.

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

10 FSC™ license numbers FSC-C016335, FSC-C114681, FSC-C116575 and FSC-C129309.

11 Relevant legislative requirements include the European Timber Regulation (EUTR), the United States' Lacey Act of 1900, the United States' Dodd – Frank Wall Street Reform and Consumer Protection Act of 2010 and required testing standards, such as Business and Institutional Furniture Manufacturers Association (BFMA).

12 FSC™ license number FSC-C113132.

Social Dialogue in Bangladesh

We continue to implement our social dialogue program to raise awareness of and improve the relationship between factory management and workers in Bangladesh at factories located outside the Export Promotion Zones (EPZ). The program trains middle management on topics such as freedom of association, participation committees, safety committees and grievance mechanisms. The program was developed in partnership with Just Solutions, a UK-based organization with extensive experience in improving industrial relationships in Bangladeshi factories. Phase I of the project was completed in December 2017, engaging 232 factories and 301 members of factory management. The program will be expanded in 2018 to cover other factory managers and workers.

Initial results of the program, based on the project's key performance indicators show:

- Monthly average turnover rate reduced to 3.16% from 4.13%
- Monthly average unauthorized absent days reduced to 256 days from 278 days
- Monthly average re-work rate reduced to 0.09% from 4.50%

LF Workers' App

Working with the Fung Academy, we launched the LF Workers' App beta version on a pilot basis in Vietnam. Our aim is to use mobile technology to enable suppliers to engage and educate their workers on issues related to their work as well as their personal development and wellbeing. The app grew out of the recognition that factory workers increasingly have smartphones, which could provide a platform for factories to improve their engagement, human resource (HR) management and retention efforts, while allowing workers access to a much wider set of educational tools. We want to provide a factory-driven tool that improves factories' HR management, educates workers and builds a more inclusive supply chain.

Mobile Environmental Data Platform

As much of the supplier network has yet to be covered by the Sustainable Apparel Coalition (SAC)'s Higg Index, and there is an urgent need for environmental efficiency on a product and factory level, we developed a number of auxiliary tools to assess and benchmark suppliers' environmental performance. A mobile environmental data platform, developed through our partnership with the Leaders for Global Operations program at the Massachusetts Institute for Technology (MIT) and the Fung Academy, enables suppliers to undertake a simple environmental assessment using a web-based tool. Data from the tool is aggregated centrally and analyzed to enable factories to become more energy and resource efficient, and also to drive environmental efficiency at the product level.

At the factory level, we use our data to help suppliers pinpoint where they can improve. A separate but linked pilot adopts wireless and wired sensors in individual factories to help suppliers gain a more granular picture of electricity and resource usage, as a way to measure and drive efficiencies, while also moving to real-time data streaming. This builds on a pilot exercise, supported by the Fung Academy, at Li & Fung's manufacturing facility in Trowbridge, UK. Beyond factory-level efficiency, data from the various environmental tools are aggregated in a product environmental footprinting tool that aims to make product assessments accessible to a wide range of suppliers regardless of their affiliation with the SAC. These tools are currently in pilot stages and will be progressively rolled out as they are refined.

The Fung Manufacturing Excellence Program: practising business sustainability

Today's factories are faced with the rising cost of materials and labor, pressure from retailers for lower pricing, tougher business regulations and more exacting social and environmental requirements. The Fung Manufacturing Excellence Program (FMEP) aims to equip suppliers with leading manufacturing concepts, helping them become more competitive, responsible and sustainable.

FMEP Roadmap

Assessment → Leadership Training → Improvement Projects

After an initial assessment, leadership training is offered to instill a renewed mindset of excellence among factory leaders and operators. Through real-life improvement projects, factory leaders and operators directly implement lean manufacturing methodologies and are coached to achieve project goals. Between 2016 and 2017, the program was piloted in five factories in India, Indonesia and China.

Successful implementation of the program has resulted in:

- Higher productivity – higher quality products with less defects/rework
- Lower cost – reduction and elimination of non-value add activities and waste
- Improved lead time – faster delivery to the customer
- Improved working conditions - safer working environment
- Increased motivation among employees

Testimonial

"Joining the FMEP journey and working with their team has been wonderful. We learnt a lot from them and improved a lot. I clearly remember being advised to be patient and coach my people to be able to think, not just to follow my orders. Now I have more patience and more influence on my teams to continuously improve themselves and our processes."

Wendy Wu

General Manager, home textile product factory in China

The factory's pilot production line reduced their workspace needs by 50% and increased productivity by 30%.

Hazardous Chemical Use Reduction

The use of hazardous chemicals in the global textile, apparel and footwear industry can have negative impacts on both the environment and workers' health and wellbeing. To address this risk, we launched an initiative in 2017 to monitor, reduce and ultimately eliminate hazardous chemicals in the supply chain. As an initial step, we are using industry-developed detox guidelines for our private label group's apparel and footwear suppliers, to systemically monitor, reduce and eliminate hazardous chemical substances. Initial results of the program will be released at the end of 2019.

Collaborating with Industry

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.

We collaborate with our industry partners and implement a number of initiatives that aim to address specific health and safety, labor and environmental issues in the supply chain, as well as educate and empower workers, thereby creating a more socially-inclusive business, all with the aim of raising sustainability performance.

Bangladesh Building and Fire Safety

We are advisors to two initiatives working to improve factory safety, the Bangladesh Accord on Fire and Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance), which principally comprise brands and retailers from Europe and North America, respectively.

As of December 2017, the overall remediation of safety issues identified in initial inspections in Bangladesh under the Accord has reached a completion rate of 82%. A total of 654 Accord factories have completed at least 90% or more of these remediation actions. The Government of Bangladesh confirmed it will extend the permission of the Accord to continue beyond the initial end date of May 2018. A joint monitoring committee, comprising Accord brand and trade union signatories, the Bangladesh Garment Manufacturers and Exporters' Association (BGMEA), ILO and the Bangladeshi government, has agreed that the stated conditions for a handover will have been met by 2021.

The overall remediation of safety issues identified in active factories under the Alliance has reached a completion rate of 86% as of December 2017. A total of 286 Alliance factories have achieved all material components of their Corrective Action Plans.

As part of our commitments to the Alliance, we participated in the post-2018 working group, which submitted a recommendation that includes a transition period from July to December 2018, after which a lean organization will oversee the factory approval process, inspections, training and the worker helpline, all of which will be conducted by nominated third parties.

The results for both the Accord and the Alliance show the value of collective action and suggest factory owners are taking the remediation process seriously and fulfilling their commitment to provide safer work environments for their employees.

Social & Labor Convergence Project

Li & Fung is actively supporting the Social & Labor Convergence Project as it complements our goals of industry alignment and reduction of audit fatigue. The project, launched in 2016, seeks to develop a single, unified assessment framework and data collection system covering critical issues including child labor, forced labor, occupational health and safety and wages in the apparel and footwear industry. We represent the agent seat on the project's steering committee and we continue to participate in the working groups for tool development and verification. The first version of the framework has been created and is being piloted from November 2017 to January 2018. We look forward to sharing results from the three participating factories in our supply chain in China, Cambodia and Guatemala.

Sustainable Apparel Coalition

We continue to be a member of the Sustainable Apparel Coalition (SAC), the apparel, footwear and textile industry's leading alliance for sustainable production. Our partnership with SAC initially revolved around the development of the Higg Index – a series of facility, brand and product tools that measure environmental and social/labor impacts across the supply chain.

SAC and Li & Fung signed a strategic training partnership in 2017 to increase SAC member access to experienced, in-person trainers. In total, 21 of our employees are SAC-approved trainers and 17 are verifiers for Higg 2.0. We trained 108 facilities and factories this year through webinars or onsite training.

In addition, we have continued to contribute to SAC's working groups to make further updates to the tool. This year's focus was primarily to help factories transition from the Higg's earlier tool (version 2.0) to Higg 3.0. Li & Fung and SAC are currently collaborating to retrain our own trainers and verifiers on Higg 3.0 so we can continue to help our customers and factories measure their sustainability impact on an industry-wide scale.

Business for Social Responsibility (BSR)

In 2017, we continued to implement the HERproject in partnership with BSR, involving 84 factories and over 175,000 workers in Bangladesh, Cambodia, India and Vietnam. Since launching the program in 2014, over 1,000 training sessions were held with 12 sessions per factory over a period of 14 to 18 months. As the last factories finish their training in 2018 and the program concludes, the over 5,000 peer educators that were trained will continue to share the skills and knowledge learned within the factories. Interim results from the program show significant health and business benefits, including increased health knowledge and productivity, and reduced absenteeism and turnover over the course of the program's duration.

A video of the program in Cambodia is available on our YouTube channel: https://www.youtube.com/watch?v=eGWYP0fF5n8

Country	Program	No. of Factories	No. of Workers	Interim Program Impacts
Bangladesh	HERhealth	37	86,000+	• Under measurement
Cambodia	HERhealth + Nutrition	11	17,000+	• 18% increase in productivity • 10% decrease in female resignations
India	HERhealth + HERfinance	21	41,000+	• 11% increase in productivity • 20% decrease in female resignations
Vietnam	HERhealth	15	31,000+	• 3% decrease in female resignations • 13% decrease in females taking sick leave
TOTAL AS OF 2017[13]		**84**	**175,000+**	

Ethical Trade Initiative (ETI)

In 2017, Li & Fung signed a partnership with ETI, a leading alliance of companies, trade unions and nongovernmental organizations that promotes respect for workers' rights. The partnership will focus on key themes such as modern-day slavery and social dialogue as well as participation in ETI projects in sourcing countries.

The Center for Child Rights and Corporate Social Responsibility (CCR CSR)

We engage with CCR CSR's working group to better understand how supply chain management impacts children and how we can better use our leverage to eliminate child labor in our supply chain. We are helping our employees to have an increased understanding of emerging risks, newly-available data and legal updates. In 2017, we signed an MOU to engage CCR CSR's remediation service in cases where child labor is detected. This ensures any cases of identified child labor will be remediated in the best interests of the child.

13 Represents the total number of factories and their workers who completed or remained active in the program since 2014.

The Mekong Club

Li & Fung is a member of The Mekong Club, a not-for profit organization that aims to inspire and support the private sector to lead in the fight against modern slavery. In 2017, through our engagement in the Apparel & Footwear Working Group, we contributed to the development of a new remediation tool and The Business Pledge against Modern Day Slavery. We worked closely with the Mekong Club to further our e-learning training on forced labor for both our suppliers and our employees.

Strategic Advisor to the Global Fashion Agenda

To deepen the scale and impact of our supply chain sustainability programs, we entered into a strategic advisor role with the Global Fashion Agenda (GFA), a fashion-focused initiative designed to educate and drive change towards a sustainable fashion industry. It mobilizes the international fashion industry to transform the way we produce and consume fashion, and hosts a flagship event, the Copenhagen Fashion Summit, which is the largest event convening the major fashion industry decision makers at a global scale. In 2017, GFA released the Pulse of the Fashion Industry report[14], to provide a common baseline and framework to address the industry's environmental, social and ethical footprint and present pragmatic and economic actions to produce sustainable change.

Through its advisory role in the GFA, Li & Fung is positioned to contribute substantively to change in the industry on key issues such as the circular economy, as well as bridge the gaps that exist between producers, brands and retailers. In November 2017, we hosted the first ever GFA Pulse Supplier Forum in Asia to provide a platform for action along with resources and networks for the supplier community to make changes for a more sustainable supply chain.

14 http://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

Our Communities

We engage our people to meaningfully contribute to our communities.

Our Communities

We are committed to making positive and scalable change in the communities where we live and work. Our Li & Fung Foundation is activating communities, convening the supply chain and focusing on exponential impact. Our vision is simple but bold – we aspire to make life better for a billion people along the supply chain.

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 creating 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 engagement activities.

Putting purpose at the core of what we do, we provide resources and support for volunteering projects that are close to our hearts. Together we share our knowledge and skills, and we raise funds to support initiatives, campaigns and disaster relief. Each activity is tracked and metrics are shared with our people and community partners. This is also used 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 and colleagues, and align with our values.

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, guiding and supporting our initiatives to make life better for a billion people. Our unique position on the supply chain enables us to harness our strengths, including our global networks, local knowledge, relationships and some 21,000 people in more than 40 markets, to make positive impacts that are scalable and sustainable.

Our foundation's strategic priorities include the following three areas: activating communities, convening our partners along the supply chain and focusing on exponential impact.

Activating Communities

We channel the expertise, interests, time and talent of our people around the world to raise awareness and solve social and environmental needs. We do this by encouraging and supporting our people who 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. Volunteer hours are logged by colleagues via our self-serve app, One Touch, and we continued to encourage colleagues to utilize the eight-hour volunteer leave policy to volunteer for activities they support in their communities. In 2017, we implemented our 'Make Life Better Program' to recognize those who make a difference in activating communities.

Convening our Partners along the Supply Chain

Our unique position on the global supply chain enables us to leverage our networks, people and partnerships for impact, to implement specific projects that build sustainable, shared value for all stakeholders.

As convening catalysts, 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 further harness technology, information, networks and passion to implement scalable initiatives that can be expanded to positively impact substantial numbers of beneficiaries. We aim to create great change in the world by 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, communities, 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 an impact for a billion people along our supply chain.

Business leaders and colleagues supporting our strategic community partner, the Cambodian Children's Fund (CCF), to help transform impoverished children into tomorrow's leaders.

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: Karen Seymour, Executive Director of the Li & Fung Foundation, and members, Richard Darling, Terence Fung, Alice Lai, Vera Lam, Emily Mak and Robert Sinclair. You can view their biographies on the Li & Fung Foundation website.

In 2018, the Li & Fung Foundation will continue to focus on its strategy of making scalable, sustainable change in the supply chain by finding solutions that can generate exponential impact from our initiatives and into our communities.

2017 Community Impact Results

In 2017, time spent by our colleagues on volunteering increased by 53% when compared to the previous year with over 16,500 hours spent on hands-on activities, such as tree planting and working with children, over 13,000 hours participating in awareness-raising activities on issues ranging from women's and men's health to environmental sustainability, and almost 400 hours for other events, including in-kind donation activities and fundraisers.

Our colleagues generously donated almost US$105,000 to support community initiatives in 2017, including educational sponsorships for children, disaster relief, global health campaigns and a wide variety of programs to care for local communities. In addition, our Company donated over US$742,000 to further support charitable organizations and activities around the world.

The Li & Fung Foundation provides funding for hands-on community service and matches 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 family. In 2017, total support from Fung family members and the Li & Fung Foundation was over US$516,000[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 96,500 times, and giving 181,000 hours to support 2,030 social and environmental initiatives around the world.

1 Foundation support comprised almost US$231,000 from the Fung family and US$285,000 from the Li & Fung Foundation.

448
Activities

Our people volunteered
17,000+ times

84 locations in **25** countries participated in community initiatives

30,000+
Volunteer hours

21,400+
Volunteer hours during working hours

8,700+
Volunteer hours during non-working hours

Since 2011, our employees have also donated over US$1.78 million to support communities. The Fung (1906) Foundation, the Fung family, and the Li & Fung Foundation have provided over US$3.5 million to further support some of these projects, and our corporate donations have totaled US$7 million.

Supporting our people to meaningfully contribute to our communities is an important part of our Sustainability Strategy and aligns with the strategic focus of the Li & Fung Foundation. Details of our activities in 2017 are shared below under our three focus areas of activating communities, which includes investing in the potential of people and helping communities in need, convening our partners along the supply chain, and focusing on exponential impact.

Activating Communities

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 2017, we continued to publish our biweekly community engagement newsletter to highlight how our work relates to global issues, builds awareness and communicates purpose, and to share stories of how our colleagues create impact around the globe. We also increased our communication channels and frequency of engagement with our volunteers through monthly volunteer leadership newsletters, website updates and social media channels.

With over 86 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, Cambodian Children's Fund, Captivating International, Christina Noble Children's Foundation, Crossroads, Habitat for Humanity, Junior Achievement, Movember Foundation, Red Cross/Red Crescent, Room to Read, The Women's Foundation (TWF) and World Vision.

Raising money, achieving personal fitness goals and team building with colleagues as part of a 10-kilometer run through the City of Manchester in support of Mind in Salford, a charity providing quality, user-focused services to make a positive difference to the wellbeing and mental health of the people of Salford.

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 2017 included:

- Sponsoring girls' education and daily living essentials in a safe and nurturing environment and empowering girls with vocational training in China
- Over 10,300 youths benefiting from engagement activities such as tutoring, donations of goods, soap redistribution, tree planting, computer lab installation, career talks and youth home visits in Bangladesh, Brazil, Cambodia, China, India, Turkey, the United States and Vietnam
- Partnering with AUW, Junior Achievement, TWF and other youth-focused organizations to empower, engage and uplift underprivileged yet 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

Helping Communities in Need

We believe our communities grow in ways unique to their geography and cultural identity. 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 women's and men's health, blood donations and caring for the environment. We also support a number of local initiatives that address social needs and enhance livelihoods.

Colleagues cleaned and beautified natural areas along canal floodgates and gardens in Bangkok to honor the memory and legacy of His Majesty, the late King Bhumibol Adulyadej, who initiated many royal projects to improve the wellbeing of his people and the environment.

Our activities in 2017 included:

- Collecting almost 500 kg of waste from coastlines and cityscapes, planting over 3,250 trees, holding workshops and raising awareness about environmental impacts in many places where we work and live, including Guatemala, the Philippines, Portugal, South Korea and Thailand, among others. This was part of our sixth 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 toilets for a rural village in Indonesia, organized sporting events for refugees, supported running events, and promoted health campaigns. Our women's health awareness campaign, 'Go Pink Go Check', saw over 3,000 employees from around the world – from Mexico and Nicaragua to France to Indonesia – dress in pink. Our men's health awareness campaign, 'Movember', reached colleagues all over the world, and for the fourth year running, Li & Fung was one of the top three fundraisers in Hong Kong

- Donating 900 pints of blood and raising awareness for humanitarian needs in 40 of our offices around the globe, from Sri Lanka to Singapore, potentially saving up to 2,700 lives[2]. In Hong Kong, we supported the Red Cross with our 19th year of blood donations

- Fundraising and donating in Asia, North America and South America to give support for those impacted by damaging floods in Bangladesh and Thailand and hurricane relief in the southern United States and Puerto Rico. We also provided donations – food, tutoring, books and school supplies in Cambodia and Vietnam – through an ongoing partnership with the Cambodian Children's Fund and the Christina Noble Children's Foundation

- Helping to improve schools through hands-on refurbishment and betterment projects in Bangladesh, Cambodia, China, Pakistan, Turkey and Vietnam, including uniform and computer lab donations, construction and basic school maintenance activities, and donations of bicycle blinkers to keep children safe on the road

- Clothing, school supplies, trees and yarn along with volunteer time and financial support were given to refugees, students, elderly, children in need, underprivileged women, orphans and the homeless in Bangladesh, Cambodia, Hong Kong, India, Pakistan, the Philippines, Singapore, Turkey, the United States and Vietnam

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

Convening our Partners along the Supply Chain

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.

Our activities in 2017 included:

- Sharing industry expertise, knowledge and best practice with Industree Foundation in India to build the organization's capacity, and collaborating with the Mastercard Center for Inclusive Growth to help jewelry artisans in India improve their business knowledge and practices

- 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 financial literacy, and on improving workplace interaction, harmony and efficiency. As of 2017, over 175,000 workers and 84 factories have been involved since the program started in 2014, and positive results measured include reduced absenteeism, sick leave and resignations by females, as well as improved workplace communication

- Working with our logistics operations to collect and deliver used clothes to help support community partners in Hong Kong

- Supporting disabled people find meaningful work as part of social inclusion programs that involve packing goods at our logistics facility in Taiwan and producing items at our beauty manufacturing operations in China. These workers now have both long-term income opportunities and work experience. Our beauty business also worked with a factory in a disadvantaged area of China to increase opportunities for workers and improve social inclusion

Focusing on Exponential Impact

We celebrate big ideas, change makers and innovative solutions to make meaningful, scalable impact to exponentially improve lives. Working with our colleagues, customers, vendors, suppliers and community partners, we aspire to extend our impact deeper into our communities.

Through harnessing the power of technology, we share best practices internally and externally through online platforms and provide micro funding to entrepreneurs in need around the globe. We also invite community members into our awareness-building sessions and are piloting an engagement and education app for workers in our factories. Some of the ways we have extended our impact include:

- Partnering with Kiva to fund micro loans to almost 200 entrepreneurs (over 170 are female) in over 25 countries, many of whom are along the supply chain where we live and work, including in Cambodia, Guatemala and Pakistan

- Inviting 300 workers from two factories to attend and participate in health seminars during Pink month in Cambodia to increase the scope of our women's health awareness campaign to our communities and inviting customers to participate in our men's health awareness campaign in Taiwan

- Engaging over 1,200 family members and friends, who gave almost 4,000 volunteer hours to local communities in over 30 locations around the world, to extend our 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

- Leveraging our global communication channel, One Family, and social media platforms to tell impactful community engagement stories and encourage best practice sharing. Our One Family community engagement blog has nearly 15,000 views and our social media audience has been continually growing

- Launching the LF Workers' App beta version on a pilot basis across 10 suppliers in Vietnam, reaching over 15,000 workers. The aim is to use mobile technology to enable suppliers to engage and educate their workers on issues both related to their work but also related to workers' personal development and wellbeing, with plans to launch the app in other countries in the coming years

Visit the Li & Fung Foundation website to learn more. You can also read more detail about how we are furthering supply chain sustainability in the 'Our supply chain' section.

Colleagues in Portugal take the star jump challenge for Movember, our men's health awareness month.

Our Footprint

Raising awareness and taking action to reduce our environmental footprint is essential for the sustainable evolution of our business.

Our Footprint

2017 marks the eighth year of implementing our holistic Sustainability Strategy, which guides us in responsibly managing our operations. Supporting our people to reduce environmental impact enables 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. 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

Over the years we have conducted investment grade and other audits, implemented energy- and water-efficiency upgrades and retrofits, and surveyed our global operations to identify what they are implementing and encourage them to do more to help reduce our environmental footprint. We 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, reduce consumption and waste, promote 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 and renovations to adopt sustainable options. In 2017, we expanded our recycling program across Hong Kong and began engaging our global locations to review their practices and further initiatives to reduce waste and increase the capture of recyclables.

We are proud to have received a Certificate of Excellence as one of the Hong Kong Management Association's Sustainability Award winners this year. The award recognizes organizations who integrate sustainability into their business to improve their economic, environmental, governance and social performance. We also have received the Hong Kong Award for Environmental Excellence – Gold Award for the Servicing and Trading sector and the Hong Kong Green Organization Certificate[1] from the Hong Kong SAR Government's Environmental Campaign Committee.

Our commitment to the environment is also exemplified by our manufacturing facility in Trowbridge, the UK, being recognized as a Marks & Spencer ECO Factory since 2011 and our facility in Bangkok, Thailand that continues to build upon 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 sixth consecutive year. In 2017, the facility was again awarded the top honor of Level 5 for the Green Industry Certificate in recognition of its initiatives to engage suppliers, industry and community partners to improve overall environmental performance.

Systems to measure, track and manage our environmental performance have been implemented across our operations with a total of six facilities certified to the ISO 14001 environmental management system (EMS) standard[2] and five audited to meet the requirements of the Sedex Members Ethical Trade Audit (SMETA)[3].

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 our consumption and waste and by expanding our procurement of items with sustainable attributes.

To support employee awareness and engagement, we encourage our colleagues to get 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.

Our over 21,000 people around the world share best practices on environmental protection through our internal communications platform, One Family, and its interactive features. Not only do we feature stories on environmental initiatives, colleagues can also generate and share content through a live feed, by commenting on articles, writing and following blogs and sharing videos around topics of interest.

Volunteer hours are logged by colleagues via our self-serve app, One Touch, and we continued to encourage colleagues to use the annual eight-hour volunteer leave policy to volunteer for activities they support in their communities. In 2017, 4,768 of our people volunteered 10,929 hours to support 71 beach cleaning and other environmental activities, as

1 The certificate remains valid into 2018.
2 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.
3 Our facilities in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge are audited to meet SMETA requirements.

part of our sixth annual 'Clean Up our World' campaign. We also launched our 'Make Life Better Program' in recognition of colleagues who logged eight or more volunteering hours on One Touch. Since the launch, we have celebrated 108 of these 'Make Life Better Superheroes' and we are encouraging greater use of the app to log their hours.

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.

Under our Sustainable Design, Construction and Renovation Guidelines for New Construction, Major Renovation and Commercial Interiors, we maintain ergonomically-sound work areas along with resource-efficient equipment and fixtures, and select building and interior fit-out materials, furniture and other items that meet third-party certification requirements.

In 2017, we maintained a total of 13 LEED[4]/ BREEAM[5] certifications, including one platinum, six gold and five silver LEED certifications. Our office in Paris is located in a BREEAM – certified building and our LEED Gold-certified DC in Singapore received the Green Mark Platinum rating from the Building and Construction Authority of the Government of Singapore.

Project WoW (Ways of Working), which was launched in 2016 and supports our Three-Year-Plan focus on transforming our business, involves the redesigning our office space globally to promote more collaboration, idea sharing, speed and the enhanced wellbeing of our colleagues. To help achieve this, we are creating working environments that facilitate speed in work processes and communication, drive decision making, spur innovation in spaces conducive to imagination and experimentation, adopt new technologies, and connect our people and customers through digital platforms. We have empowered our people to embrace and promote this cultural shift with local WoW change committees and advocates who consult and engage colleagues on not only the overall layout of the spaces but also on adapting to the new WoW open-office work environments.

Over the past two years, we have been expanding Project WoW to include a variety of spaces with minimal physical barriers to encourage collaboration, interaction and brainstorming. Project WoW seeks to also minimize environmental impact by reducing renovation works as well as converting and reusing furniture for modular, multi-purpose working areas that are flexible and mobile and using environmentally-responsible materials such as vinyl floor tiles which are low in volatile organic compound emissions and phthalate-free. These environments are also "binless", encouraging our colleagues to reduce waste and get up and move to centralized waste and recycling collection points.

4 Leadership in Energy and Environmental Design (LEED).
5 Building Research Establishment Environmental Assessment Method (BREEAM).
6 Our facilities that manufacture beauty and personal care products are located in Bangkok, Dongguan, Jakarta, Tonawanda and Trowbridge.

Resource Management

Our Reporting Scope and Baseline

2017 marks the first year of our current Three-Year Plan and of capturing environmental data more comprehensively across our businesses globally. Our reporting scope covers over 90 offices, five manufacturing facilities[6] and over 200 DCs.

In 2016, we rolled out a new tool to better capture our environmental data and we transitioned our offices, manufacturing facilities and DCs onto the new online platform across our global network. We previously reported on environmental data captured for the 2016 reporting year, the last year of our previous Three-Year Plan, in Annual Report 2016. As previously shared, it was our intention in 2017 to review our global operations and how we collect data, to make sure that we were capturing, tracking and monitoring our data comprehensively.

Over the course of 2017, we improved the functionality of our new data management system and worked to bring all locations across our operations that have the ability to capture environmental data, into the system. As a result, locations that did not capture data previously were added and additional consumption data was included for others that weren't fully capturing all their consumption items.

While we have reported absolute and intensity reductions in our environmental footprint over the years of implementing our Sustainability Strategy, in 2017, our absolute resource consumption and GHG emissions data increased, as did our intensity metrics, over data reported in 2016.

This is a result of capturing more consumption data in our system globally as outlined above, and the expansion of our logistics business in China, Taiwan and Thailand, and in new markets of Korea, Japan, India and Vietnam. Furthermore, our state-of-the-art, LEED-Gold certified distribution hub in Singapore, one of the largest bonded warehouses in Asia, which was opened in 2016, has achieved full utilization much earlier than anticipated.

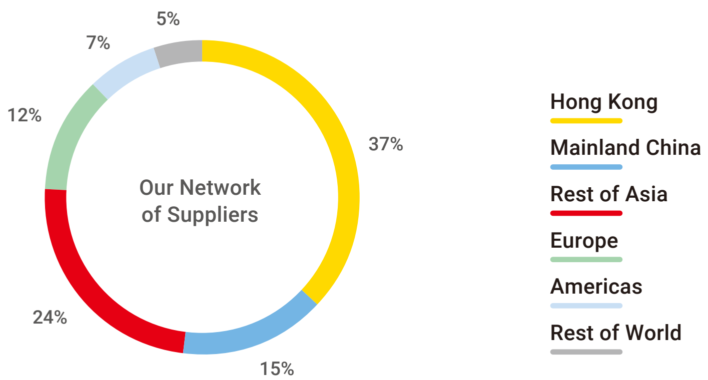
With the implementation of our improved data collection tools, the addition of new locations into our data capture and the expansion of our Logistics business, we are resetting our consumption and intensity baseline in 2017. This is a higher baseline than previously set but it reflects a more accurate state of our operations and our reporting scope. With this new baseline, we are not modifying our goal to reduce our overall footprint for our current Three-Year Plan and are working towards achieving the same intensity reduction targets that we previously set for 2019.

Visit our website for details of our performance in 2017, in comparison to our performance in 2015 and 2016, and to 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 of over 20,000 suppliers and focuses on implementing procurement best practices. Our suppliers are primarily based in Asia.

Regional Distribution of Suppliers in 2017



In 2017, we continued to reinforce our Supplier Code of Conduct by assessing suppliers to our own operations against these requirements. These requirements are also formalized in our contracts with suppliers and included in our request for proposal and selection process. Please refer to the "Our supply chain" section to learn about our approach to managing supply chains and sourcing materials and products with sustainability attributes for our customers.

In 2017, we expanded our initiatives to assess our procurement practices and identify opportunities to both enhance our engagement with our suppliers and reduce the environmental impact of these activities. We also launched an initiative to examine systems and processes to deliver more robust supplier validation and onboarding. While not yet complete, this ongoing initiative aims to ensure our direct supplier base is increasingly compliant with our Supplier Code of Conduct's requirements.

The following efficiency measures introduced over the year positively impact our overall environmental footprint:

- As part of our Three-Year Plan digitization and virtual sampling initiatives, we are reducing our use of international courier services. Not only is this reducing the volume of samples being air-freight couriered between Li & Fung, factories in our supply chain and customers, it is showing early signs of reducing waste and GHGs

- Enhancing our overall travel decision-making processes by tracking the efficiency and effectiveness of business air travel

- Removing and consolidating printers from our offices. In 2017, our offices in Shanghai and Shenzhen reduced their devices by 33% from 236 to 159 units. This is in addition to the 480 print devices that were removed in 2016 and donated for reuse

- Continuing to share paper consumption data, encouraging everyone to think before they print, and to print in black and white instead of color where possible. Also encouraging a switch to thinner paper weights. We are proud that our efforts have resulted in less printing. In Hong Kong we saw an 11% reduction in print volumes in 2017

We also continue to play an active role within the Hong Kong and global industry. In 2017, we collaborated with a working group of Hong

Kong businesses taking practical actions to reduce environmental impact.

We will continue to expand our efforts to reduce print devices and paper consumption, and to work with our suppliers to procure environmentally-responsible products.

Improving Energy Efficiency and Reducing Emissions

The impact of climate change on our world and the resilience of ecosystems is becoming more pronounced and severe. We are seeing how changes in temperature and weather are affecting biodiversity, natural and built environments, food production, resource availability and transportation, among others. The physical and financial aspect of this means the sourcing and delivery of goods and services in our industry is also affected. 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 as well. Our consumption of energy and the composition of our GHG and air emissions globally reflect that our business has offices and manufacturing facilities, and we operates vehicle fleets and DCs. In all of our facilities, systems are in place to monitor consumption and emissions and we met relevant regulatory requirements in 2017.

We calculate our GHG emissions according to international standards, appropriate national and local guidelines[7] and emission factors. Scope 1 comprises emissions from the consumption of diesel and petrol by Company-owned vehicles and natural gas and liquefied petroleum gas (LPG) by boilers, and of refrigerants by chillers. Scope 2 emissions arise from purchased electricity.

In 2017, our electricity consumption and our GHG emissions increased in absolute quantities and in intensity. As noted above, this is primarily due to the increased capture of consumption data across our global operations and an expansion of our Logistics business. We will continue to invest in efficient equipment, technologies, systems and vehicular fleets, to consolidate our offices and support our people to make behavioral changes to conserve energy.

Highlights of ongoing initiatives to reduce electricity, fuel consumption and GHG emissions include:

- Progressively retrofitting existing lighting with LED throughout our operations
- 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
- 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[8] at manufacturing facilities consuming natural gas and/or LPG
- Operating electric delivery vans in Hong Kong and Mainland China, with plans to expand our electric vehicle fleets

7 Standards and guidelines adopted include the International Energy Agency's CO2 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.

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

- 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 linked to centralized databases to monitor inventory, reducing paper consumption and improving the efficiency of warehouse operations

Visit our website for more examples and details of our 2017 electricity, fuel, LPG, natural gas and refrigerant consumption and GHG emission metrics as well as 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.

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 2017, none of our facilities experienced any material non-compliance incidents[9].

Our offices use paper 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.

Despite our ongoing efforts to consume resources efficiently, our global water and paper consumption increased in 2017, in both absolute quantity and intensity. As noted above, this is primarily due to the increased capture of consumption data across our global operations and an expansion of our Logistics business. As also noted above, our procurement team continues to implement a number of initiatives to reduce paper consumption and in Hong Kong, print volumes reduced by 11% in 2017 over the previous year. Globally, our absolute paper consumption increased in 2017 over 2016 with our intensity increasing by 3% with 10 reams of A4-equivalent paper consumed per person[11].

Visit our website for details of our 2017 water and paper consumption metrics.

The need to reduce and better manage waste has become a significant global concern, heightened by China's restrictions on waste imports and widespread awareness of how plastic waste is damaging our natural environment and affecting the health and survival of living species. For many years, each of our offices and facilities have sought to minimize waste generation, reuse materials and collect paper, packaging, printer/copier toners, aluminum cans, plastic bottles, pallets and other materials for recycling. In Hong Kong, we have been recycling all of these materials through a variety of collectors over the years and we maintain 'Class of Excellence' certification under the Hong Kong government's Wastewi$e scheme. We also ensure that our solid and hazardous waste is collected by licensed contractors

9 One of our manufacturing facilities experienced a temporary exceedance in the pH level of its wastewater discharge due to a mechanical issue that was promptly rectified.
10 FSC license numbers FSC-C016335, FSC-C113132, FSC-C114681, FSC-C116575 and FSC-C129309.
11 Normalized per person based on full-time equivalent employee statistics in 2017.

Implementing our enhanced recycling program across our offices in Hong Kong.

to guarantee the safe and proper disposal of this waste in compliance with applicable legal requirements.

In July 2017, we launched a focused program in our three buildings in Lai Chi Kok and our office in Sha Tin. We retained HKRecycles, a local social enterprise, to make sure all materials are collected, measured and sent to the appropriate recycling processing companies. To reinvigorate recycling in Hong Kong, we initiated a special campaign. First, we undertook a detailed study of where our existing recycling bins were located and how many more were needed to expand the collection to all floors in all of our buildings. After adding new recycling units, we created our own signage so all the bins would be consistently labeled with posters to explain what can and cannot be recycled. We also created our own video about the importance of recycling, how to recycle properly and to encourage everyone to do their bit.

Visit our website for our consumption quantity and intensity data for solid and hazardous waste, and recyclables, for our operations in Hong Kong in 2017.

We are also reaching out to all of our global locations to begin tracking recyclables and waste data so we can progressively move towards disclosure of global data.

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[12] 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 internal storage and delivery of finished goods.

Over the course of our previous Three-Year Plans, we have achieved absolute and intensity reductions in our consumption of resources and in our GHG emissions. Against our new 2017 baseline, we will review our operations to identify how we can further improve our environmental performance and work towards achieving the intensity reduction targets that we previously set for 2019.

12 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

FTSE4Good Index Series
Hang Seng Corporate Sustainability Index Series
Hang Seng High Dividend Yield Index
MSCI Global Sustainability Indexes
MSCI Index Series
STOXX® Global ESG Leaders

Key Dates

24 Aug 2017 Announcement of the 2017 Interim Results

19 Sep 2017 Payment of 2017 Interim Dividend

22 Mar 2018 Announcement of the 2017 Final Results

9 May 2018 Record Date for the 2018 Annual General Meeting

15 May 2018 Annual General Meeting

17 May 2018 Dividend Ex-entitlement for Shares

21-23 May 2018 (both days inclusive) Closure of the Register of Shareholders

29 May 2018 Proposed Payment of 2017 Final Dividend

Registrar & Transfer Offices

Principal
Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
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Hong Kong Branch
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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 2017
8,469,956,406 Shares

Market capitalization as at 31 December 2017
HK$36,336,112,981

Basic earnings/(losses) per Share for 2017
Interim 1.21 US cents
Full Year
– Continuing Operations 2.04 US cents
– Discontinued Operations (6.52) US cents

Dividend per Share for 2017
Interim 11 HK cents | Final 2 HK cents | Special 47.6 HK cents
Total 60.6 HK cents

Enquiries

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Websites

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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 2017.

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 43 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 2017, 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 147. 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 56 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 138 to 147 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 92 to 142.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on pages 171 to 172.

The Directors declared an interim dividend of HK$0.11 (equivalent to US$0.014) per share, totalling US$120,064,000 which was paid on 19 September,2017.

The Directors recommend the payment of a final dividend of HK$0.02 (equivalent to US$0.003) per share, totalling US$21,830,000.

The Directors declared a special dividend of HK$0.476 per share absorbing approximately US$520 million, payable out of part of the proceeds from the strategic divestment of Product Verticals business, be distributed to the Shareholders subject to Closing, as defined in the circular of the Company dated 9 January 2018 (Circular).

Distributable Reserves

At 31 December 2017, the reserves of the Company available for distribution as dividends amounted to US$2,656,574,000, comprising retained earnings of US$1,682,385,000 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 39(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$742,000.

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 2017 and for the previous nine financial years are set out in the "Ten-Year Financial Summary" section on pages 272 to 273.

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 2017.

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 2017, there were Share Options relating to 12,000,000 Shares granted by the Company representing 0.14% 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 2017, there were Share Options relating to 86,893,000 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 2017 are as follows:

			Number of Share Options				
Grant Date	Exercise Price HK$	Grantees	As at 1/1/2017	Granted	Lapsed	As at 31/12/2017	Exercisable period
2003 Option Scheme							
22/12/2011	12.12[1]	Spencer Theodore Fung	7,000,000	–	(1,000,000)	6,000,000	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
		Marc Robert Compagnon	7,000,000	–	(1,000,000)	6,000,000	
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	604,000	–	–	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
13/7/2017	2.86[5]	Continuous Contract Employees	–	125,000	–	125,000	Exercisable during the period from 1/1/2018 to 31/12/2019
		Total	100,768,000	125,000	(2,000,000)	98,893,000	

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 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 12 July 2017 was HK$2.85.

(6) 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 749,146,830 Shares, representing 8.84% 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 69,865,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 8,734,000 Award Shares were awarded to connected persons. A total of 10,702,818 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 4,080,918 Award Shares to connected persons and 6,621,900 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 4,653,082 Award Shares were purchased from the open market to satisfy awards to connected persons and 54,509,100 new Shares were allotted and issued by the Company to satisfy awards to non-connected persons pursuant to the terms of the Share Award Scheme.

As at 31 December 2017, the trustee of the Share Award Scheme held a total of 6,510,700 Shares in two separate funds. Out of 6,510,700 Shares, 221,000 Shares can be applied to satisfy awards to connected persons. The balance of 6,289,700 Shares can be applied to satisfy awards to non-connected persons.

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 1/1/2017	Granted	Vested	Unvested/ Forfeited*	As at 31/12/2017	Vesting Date
21/5/2015	Spencer Theodore Fung	540,000	–	(270,000)	–	270,000	To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019
	Marc Robert Compagnon	459,800	–	(230,000)	–	229,800	
	Connected Persons other than Directors	4,091,200	–	(2,044,600)	–	2,046,600	
	Non-connected Persons	32,163,800	–	(14,075,800)	(3,415,000)	14,673,000	
16/11/2015	Non-connected Persons	844,600	–	(263,800)	(131,000)	449,800	To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019
19/5/2016	Connected Persons other than Directors	22,000	–	(7,400)	–	14,600	To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019
	Non-connected Persons	1,094,000	–	(326,100)	(143,000)	624,900	
14/11/2016	Non-connected Persons	197,000	–	(63,800)	(11,000)	122,200	To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019
13/7/2017	Fung Kwok Lun William	–	1,143,000	–	–	1,143,000	To be vested in four tranches with the vesting date on 31 December of each year from 2017 to 2020
	Spencer Theodore Fung	–	1,143,000	–	–	1,143,000	
	Marc Robert Compagnon	–	953,000	–	–	953,000	
	Connected Persons other than Directors	–	5,495,000	–	(221,000)	5,274,000	
	Non-connected Persons	–	61,131,000	(12,200)	(4,133,000)	56,985,800	
	Total	39,412,400	69,865,000	(17,293,700)	(8,054,000)	83,929,700	

* 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.

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 in cash 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, 131,374,549 Award Shares are available for the furthering grant of awards under the Share Award Scheme, representing approximately 1.55% 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 2017 are set out in Note 43 to the financial statements.

Associated Companies

Details of the Company's principal associated companies at 31 December 2017 are set out in Note 43 to the financial statements.

Joint Venture

Details of the Company's principal joint venture at 31 December 2017 are set out in Note 43 to the financial statements.

Major Customers and Suppliers

During 2017 and 2016, the Group, comprising the Continuing Operations and the Discontinued Operations, 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% (2016: 13%) and 36% (2016: 35%), 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 2017, 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 transactions.

(i) On 14 December 2017, the Company entered into a sale and purchase Agreement with True Sage Limited, an entity incorporated in the British Virgin Islands which will be owned by United Strength Element Limited, ("USEL") (an investment holding company wholly-owned by Hony Capital, an independent third party), FH (1937) (a substantial shareholder of the Company) and Fung Investments Limited, to divest the three Product Verticals under the Products segment for a total cash consideration of US$1,100 million on a cash free/debt free basis, subject to closing adjustment. FH (1937) is a substantial shareholder of the Company and FH (1937) and members of the FH (1937) Group are connected persons of the Company. Accordingly, the strategic divestment of the three Product Verticals constitutes a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A of the Listing Rules. The strategic divestment was approved by the Company's Independent Shareholders on 31 January 2018. The strategic divestment is targeted to close during first half of 2018, subject to regulatory approval.

The three Product Verticals after the strategic divestment will be connected parties of the Company. On or before the closing date of the strategic divestment, the Company will enter into the following continuing connected transactions to deal with ongoing transactions after closing between the Group and the divested Product Verticals:

- **Services Agreement:** The services agreement allows the three Product Verticals to continue to be supplied with certain office administrative services that it currently receives from the Group for a term commencing on the closing of the strategic divestment and ending on 31 December 2019 with annual cap for 2018 and 2019 of US$35 million and US$45 million, respectively. The three Product Verticals have been receiving certain IT, human resources, finance and accounting, corporate services and global transaction services and will continue to receive such services for certain members of the three Product Verticals.

- **Master Property Agreement:** The master property agreement allows members of the three Product Verticals and members of the Group to sub-lease and license office, showroom and warehouse premises to and from one another, where the underlying leases have been entered into by the other party, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020 with annual cap for 2018, 2019 and 2020 of US$15 million, US$20 million and US$25 million, respectively. The Group has been occupying certain properties that are leased by the three Product Verticals for use as office premises, showrooms and warehouses and will continue such occupancy in the form of sub-leases and licenses in accordance with the asset light strategy of the Group.

- **Ancillary Sourcing, Logistics and Trading Services Agreement:** The ancillary sourcing, logistics and trading services agreement allows: (i) the Group to continue to provide sourcing services to the three Product Verticals; (ii) the Group to provide logistics services to the three Product Verticals; and (iii) the three Product Verticals to provide trading services to the Group, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020, with annual cap for 2018, 2019 and 2020 of US$40 million, US$45 million and US$50 million, respectively.

These continuing connected transactions will be subject to reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement.

During the year, the Group also engaged in certain other 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$15,837,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US$200 million.

(ii) The Company entered into the master lease agreement (the "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 Master Lease Agreement for the leasing of properties constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the aggregate operating lease rental and license fee paid to and from one another approximated to US$25,807,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US$70 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 "Old Buying Agency Agreement"). In view of the expiry of the Old Buying Agency Agreement, the Company entered into the amended and restated buying agency agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term commencing on 9 July 2017 and ending on 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 Old 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 2017, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$1,328,648,000. The aggregate commission payable to the Group under the Old Buying Agency Agreement and the Amended and Restated Buying Agency Agreement did not exceed the annual cap for 2017 of US$160 million and the cap on commission rate of 7% on the FOB price for all products and components sourced through the Group.

(iv) 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 on 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$16,598,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US$40 million.

(v) On 7 June 2017, the Company entered into a master agreement with Trinity for the provision of sourcing and supply chain management services to Trinity and its associates for a term commencing on 1 June 2017 and ending on 31 December 2019. The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. The commission received for the sourcing and supply chain management services to Trinity was US$5,219,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of HK$43 million (equivalent to approximately US$5.5 million).

Non-exempt continuing connected transactions of the Company for the year ended 31 December 2017 have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid non-exempt continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. 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 for the year ended 31 December 2017 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 5% 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 2017 were:

	US$'000
Contributions to the MPF Scheme	1,534
Contributions forfeited by employees	(62)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	2,206
Contributions pursuant to the statutory requirements in Korea	1,271
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	2,553
Contributions pursuant to statutory requirements in China	39,698
Contributions pursuant to local requirements in other overseas regions	14,975
	62,175

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* (retired on 1 June 2017)
Allan Wong Chi Yun*
Martin Tang Yue Nien*
Margaret Leung Ko May Yee*
Chih Tin Cheung* (appointed on 14 July 2017)
John G. Rice* (appointed on 10 January 2018)

Executive Directors:

William Fung Kwok Lun (Group Chairman)
Spencer Theodore Fung (Group Chief Executive Officer)
Marc Robert Compagnon
Joseph C. Phi (appointed on 10 January 2018)

* 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.

Spencer Theodore Fung, Allan Wong Chi Yun and Margaret Leung Ko May Yee will retire by rotation at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election.

In accordance with bye-law 101 of the Company's bye-laws, Chih Tin Cheung, John G. Rice and Joseph C. Phi who were appointed by the Directors during the year and up to the date of this Report, will retire and, being eligible, offer themselves for re-election.

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 72 to 85.

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 35 "Related Party Transactions from Continuing Operations" to the financial statements.

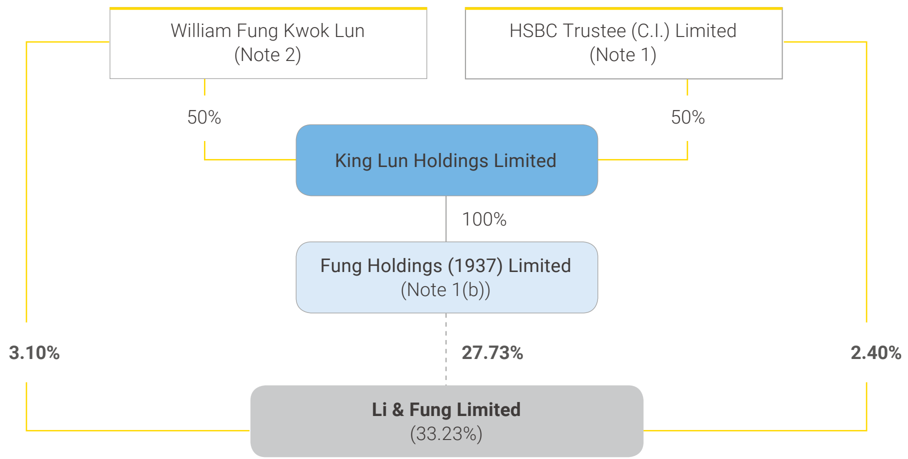
Directors' Interests

As at 31 December 2017, 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[7]
Victor Fung Kwok King	2,814,444	–	2,551,966,180[1]	–	2,554,780,624	30.16%
William Fung Kwok Lun	177,120,260	108,800[2(a)]	2,426,505,472[2(b)]	7,509,000[6]	2,611,243,532	30.83%
Spencer Theodore Fung	1,948,000	–	2,553,379,180[1&3]	10,569,000[6]	2,565,896,180	30.29%
Marc Robert Compagnon	1,360,200	14,000	13,472,580[4]	9,945,000[6]	24,791,780	0.29%
Martin Tang Yue Nien	60,000	–	60,000[5]	–	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 2017,

(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) 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above. 1,143,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above.

(3) Out of 2,553,379,180 Shares, 1,413,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. 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 13,472,580 Shares, 1,182,800 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) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.

(6) These interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners, the details of which are set out in the "Share Option Schemes" section stated above.

(7) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 31 December 2017.

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

As at 31 December 2017, 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 Awards Shares

The interests of the Directors and chief executives in the Share Options (being regarded as unlisted physically settled equity derivatives) and Awards 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 2017, 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[3]
Long Positions			
HSBC Trustee (C.I.) Limited	Trustee	2,551,966,180[1]	30.13%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872[2]	27.73%
The Capital Group Companies, Inc.	Interest of controlled corporation	674,166,000	7.96%
Commonwealth Bank of Australia	Interest of controlled corporation	589,278,379	6.96%
BlackRock, Inc.	Interest of controlled corporation	437,042,804	5.16%
Silchester International Investors LLP	Investment manager	420,910,000	5.00%
Short Positions			
BlackRock, Inc.	Interest of controlled corporation	13,840,000	0.16%

NOTES:

As at 31 December 2017,

(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.

(3) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 31 December 2017.

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 2017.

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 72 to 85.

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 44 to 61.

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 2017, 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, 22 March 2018

Independent Auditor's Report

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") set out on pages 171 to 271, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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 Refer to Notes 1.6, 2(A), 2(B) and 11 to the consolidated financial statements Included on the balance sheet is an intangible assets balance of US$3,969 million as of 31 December 2017, which relates to goodwill of US$3,648 million, and system development, software, other license costs and other intangible assets of US$321 million which arose mainly from past acquisitions, of which US$1,622 million is classified as assets held for sale. 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. 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 2017. 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. We compared the methodology used (value-in-use calculations based on future discounted cash flows) by the Group to market practice. 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. 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. 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. 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. 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 Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of contingent consideration payable for business acquisitions Refer to Notes 2(D), 4, 27, 36(c) and 38 to the consolidated financial statements As at 31 December 2017, the Group had contingent consideration payables of US$62 million, which are due to be payable from 2018 to 2022. The Group recognised 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. 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 2017, a gain of US$31 million was recognised in the consolidated profit and loss account. 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. 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. 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. We compared the discount rates used by management against market information and internal data. For contingent consideration payables which have been remeasured in current year, we have assessed the events and circumstances emerging since the last assessment which triggered the remeasurement. We held discussions with management, compared the performance forecast to the revised future business plan and obtained evidence of those events or circumstances to support the remeasurement. We found the Group's estimates and judgments used in the valuation of contingent consideration payables as at 31 December 2017 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 the 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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, 22 March 2018

Financial Statements

Notes to the Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2017

	Note	**2017 US$'000**	2016 US$'000 (Restated)
Continuing Operations			
Turnover	3	**13,534,209**	14,751,222
Cost of sales		**(12,185,061)**	(13,276,977)
Gross profit		**1,349,148**	1,474,245
Other income		**37,124**	20,782
Total margin		**1,386,272**	1,495,027
Selling and distribution expenses		**(395,279)**	(470,012)
Merchandising and administrative expenses		**(635,141)**	(706,614)
Core operating profit	3	**355,852**	318,401
Gain on remeasurement of contingent consideration payable	4	**31,492**	–
Amortization of other intangible assets	4	**(23,327)**	(20,011)
Gain on disposal of business	4	**–**	7,871
One-off reorganization costs	4	**(33,945)**	(5,863)
Operating profit	4	**330,072**	300,398
Interest income		**12,261**	15,713
Interest expenses	5		
Non-cash interest expenses		**(3,284)**	(3,971)
Cash interest expenses		**(66,477)**	(86,477)
		(69,761)	(90,448)
Share of profits less losses of associated companies and joint venture	14&15	**1,898**	1,748
Profit before taxation		**274,470**	227,411
Taxation	6	**(40,830)**	(32,288)
Profit for the year from Continuing Operations		**233,640**	195,123
Discontinued Operations			
(Loss)/profit for the year from Discontinued Operations	31(a)	**(543,045)**	61,068
Net (loss)/profit for the year		**(309,405)**	256,191

For the year ended 31 December 2017

	Note	**2017** **US$'000**	2016 US$'000 (Restated)
Attributable to:			
Shareholders of the Company		**(374,573)**	221,077
Holders of perpetual capital securities		**64,125**	35,687
Non-controlling interests		**1,043**	(573)
		(309,405)	256,191
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**170,418**	160,009
Discontinued Operations	31(a)	**(544,991)**	61,068
		(374,573)	221,077
Earnings/(losses) per share for profit attributable to the Shareholders of the Company during the year			
– Basic from Continuing Operations		**15.8 HK cents**	14.9 HK cents
(equivalent to)		**2.04 US cents**	1.92 US cents
– Basic from Discontinued Operations		**(50.6) HK cents**	5.7 HK cents
(equivalent to)		**(6.52) US cents**	0.73 US cents
– Diluted from Continuing Operations		**15.7 HK cents**	14.8 HK cents
(equivalent to)		**2.02 US cents**	1.90 US cents
– Diluted from Discontinued Operations		**(50.1) HK cents**	5.6 HK cents
(equivalent to)		**(6.46) US cents**	0.73 US cents

The notes on pages 180 to 271 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000 (Restated)
Net (Loss)/Profit for the Year		**(309,405)**	256,191
Other Comprehensive Income/(Expense):			
Item that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax		**6**	(2,991)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences *		**82,191**	(137,745)
Net fair value (losses)/gains on cash flow hedges, net of tax		**(6,959)**	4,373
Net fair value gains on available-for-sale financial assets, net of tax		**174**	310
Total Items that may be Reclassified Subsequently to Profit or Loss		**75,406**	(133,062)
Total Other Comprehensive Income/(Expense) for the Year, Net of Tax		**75,412**	(136,053)
Total Comprehensive (Expense)/Income for the Year		**(233,993)**	120,138
Attributable To:			
Shareholders of the Company		**(299,185)**	85,572
Holders of perpetual capital securities		**64,125**	35,687
Non-controlling interests		**1,067**	(1,121)
Total Comprehensive (Expense)/Income for the Year		**(233,993)**	120,138
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**217,611**	79,384
Discontinued Operations	31(a)	**(516,796)**	6,188
		(299,185)	85,572

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

Consolidated Balance Sheet

As at 31 December 2017

	Note	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000 (Restated)	As at 1 January 2016 US$'000 (Restated)
Non-current Assets				
Intangible assets	11	**2,347,011**	3,896,973	4,266,863
Property, plant and equipment	12	**208,221**	221,550	241,626
Prepaid premium for land leases	13	**67**	127	1,942
Associated companies	14	**12,393**	11,005	10,070
Joint venture	15	**996**	760	313
Available-for-sale financial assets	16	**4,338**	4,164	3,854
Other receivables, prepayments and deposits	20	**27,738**	27,458	26,217
Deferred tax assets	29	**17,456**	16,419	36,527
		2,618,220	4,178,456	4,587,412
Current Assets				
Inventories	17	**147,803**	277,841	566,002
Due from related companies	18	**463,163**	487,033	486,939
Trade and bills receivable	20	**1,148,560**	1,547,208	1,689,413
Other receivables, prepayments and deposits	20	**150,252**	218,504	268,012
Derivative financial instruments	19	**–**	10,697	4,272
Cash and bank balances	21	**348,940**	985,039	342,243
		2,258,718	3,526,322	3,356,881
Assets Classified as Held for Sale	31(d)	**1,641,065**	–	–
Current Liabilities				
Due to related companies	18	**124**	2,093	1,038
Trade and bills payable	22	**1,733,661**	2,083,875	2,464,785
Accrued charges and sundry payables	22	**468,089**	553,292	635,579
Purchase consideration payable for acquisitions	27	**42,166**	67,794	86,266
Taxation		**43,908**	55,711	56,463
Bank advances for discounted bills	20	**1,724**	22,773	33,681
Short-term bank loans	23	**22,970**	29,180	95,819
Derivative financial instruments	19	**5,355**	–	–
Current portion of long-term notes	27	**–**	499,819	–
		2,317,997	3,314,537	3,373,631
Liabilities Associated with Assets Classified as Held for Sale	31(d)	**466,570**	–	–
Net Current Assets/(Liabilities)		**1,115,216**	211,785	(16,750)
Total Assets Less Current Liabilities		**3,733,436**	4,390,241	4,570,662

	Note	As at 31 December 2017 US$'000	2016 US$'000 (Restated)	As at 1 January 2016 US$'000 (Restated)
Financed by:				
Share capital	24	**13,574**	13,487	13,487
Reserves		**1,734,172**	2,287,893	2,466,130
Shareholders' funds attributable to the Company's Shareholders		**1,747,746**	2,301,380	2,479,617
Holders of perpetual capital securities	26	**1,158,687**	1,158,687	503,000
Written put option on non-controlling interests		**(67,000)**	–	–
Non-controlling interests		**74,262**	(1,083)	4,293
Total Equity		**2,913,695**	3,458,984	2,986,910
Non-current Liabilities				
Long-term notes	27	**752,432**	753,458	1,253,823
Purchase consideration payable for acquisitions	27	**19,417**	93,742	156,236
Other long-term liabilities	27	**29,034**	32,589	116,420
Post-employment benefit obligations	28	**14,165**	22,517	21,909
Deferred tax liabilities	29	**4,693**	28,951	35,364
		819,741	931,257	1,583,752
		3,733,436	4,390,241	4,570,662

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

The notes on pages 180 to 271 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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)	Written Put Option on Non-controlling Interests US$'000	Non-Controlling Interests US$'000	Total Equity US$'000
Balance at 1 January 2017, as previously reported	13,487	714,536	431,450	1,166,071	2,325,544	1,158,687	–	(1,083)	3,483,148
Impact of adoption of HKFRS 15	–	–	(3,073)	(21,091)	(24,164)	–	–	–	(24,164)
Balance at 1 January 2017, as restated	13,487	714,536	428,377	1,144,980	2,301,380	1,158,687	–	(1,083)	3,458,984
Comprehensive (Expense)/Income									
Profit or loss	–	–	–	(374,573)	(374,573)	64,125	–	1,043	(309,405)
Other Comprehensive Income/(Expense)									
Currency translation differences	–	–	82,167	–	82,167	–	–	24	82,191
Net fair value gains on available-for-sale financial assets, net of tax	–	–	174	–	174	–	–	–	174
Net fair value losses on cash flow hedges, net of tax	–	–	(6,959)	–	(6,959)	–	–	–	(6,959)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	6	–	6	–	–	–	6
Total other comprehensive income, net of tax	–	–	75,388	–	75,388	–	–	24	75,412
Total Comprehensive Income/(Expense)	–	–	75,388	(374,573)	(299,185)	64,125	–	1,067	(233,993)
Transactions with Owners in their Capacity as Owners									
Purchase of shares for Share Award Scheme	–	–	(1,706)	–	(1,706)	–	–	–	(1,706)
Issuance of shares for Share Award Scheme	87	–	(87)	–	–	–	–	–	–
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	16,735	–	16,735	–	–	–	16,735
– vesting of shares for Share Award Scheme	–	13,991	(13,991)	–	–	–	–	–	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(64,125)	–	–	(64,125)
Transfer to capital reserve	–	–	4,861	(4,861)	–	–	–	–	–
2016 final dividend paid	–	–	–	(130,136)	(130,136)	–	–	–	(130,136)
2017 interim dividend paid	–	–	–	(120,064)	(120,064)	–	–	–	(120,064)
Written put option on non-controlling interests	–	–	–	–	–	–	(67,000)	–	(67,000)
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	55,000	55,000
Transactions with non-controlling interests	–	–	–	(19,278)	(19,278)	–	–	19,278	–
Total Transactions with Owners in their Capacity as Owners	87	13,991	5,812	(274,339)	(254,449)	(64,125)	(67,000)	74,278	(311,296)
Balance at 31 December 2017	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695

The notes on pages 180 to 271 are an integral part of these consolidated financial statements.

	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 2016, as previously reported	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166
Impact of adoption of HKFRS 15	–	–	(4,234)	(19,022)	(23,256)	–	–	(23,256)
Balance at 1 January 2016, as restated	13,487	704,618	550,669	1,210,843	2,479,617	503,000	4,293	2,986,910
Comprehensive Income/(Expense)								
Profit or loss	–	–	–	221,077	221,077	35,687	(573)	256,191
Other Comprehensive (Expense)/Income								
Currency translation differences	–	–	(137,197)	–	(137,197)	–	(548)	(137,745)
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 of post-employment benefit obligations recognized in reserve, net of tax	–	–	(2,991)	–	(2,991)	–	–	(2,991)
Total other comprehensive expense, net of tax	–	–	(135,505)	–	(135,505)	–	(548)	(136,053)
Total Comprehensive (Expense)/Income	–	–	(135,505)	221,077	85,572	35,687	(1,121)	120,138
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	428,377	1,144,980	2,301,380	1,158,687	(1,083)	3,458,984

The notes on pages 180 to 271 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000 (Restated)
Continuing Operations			
Operating Activities			
Net cash inflow generated from operations	30(a)	**359,619**	304,396
Hong Kong profits tax paid, net of refund		**(6,647)**	(3,408)
Overseas taxation paid		**(40,102)**	(29,252)
Net Cash Inflow from Operating Activities		**312,870**	271,736
Investing Activities			
Purchases of property, plant and equipment		**(71,689)**	(47,197)
Payments for system development, software, license and other intangible assets		**(18,900)**	(6,997)
Settlement of consideration payable for prior years acquisitions of businesses		**(67,811)**	(87,271)
Disposal of business		**–**	316,196
Proceeds from disposal of property, plant and equipment and prepaid premium for land leases		**6,289**	4,879
Interest income		**12,261**	15,713
Dividends received from associated companies	14	**821**	835
Investing in a joint venture	15	**(529)**	(612)
Other investing activities		**–**	(1,494)
Net Cash (Outflow)/inflow from Investing Activities		**(139,558)**	194,052
Net Cash Inflow before Financing Activities		**173,312**	465,788
Financing Activities			
Interest paid		**(66,477)**	(86,477)
Net proceeds from issuance of perpetual capital securities, net of transaction cost		**–**	645,500
Distributions made to holders of perpetual capital securities		**(64,125)**	(30,000)
Repayment of long-term notes	30(b)	**(500,000)**	–
Dividends paid		**(250,200)**	(281,961)
Purchase of shares for Share Award Scheme		**(1,706)**	(12)
Net repayment of bank loans	30(b)	**(938)**	(168,193)
Net Cash (Outflow)/Inflow from Financing Activities		**(883,446)**	78,857
(Decrease)/Increase in Cash and Cash Equivalents from Continuing Operations		**(710,134)**	544,645
Discontinued Operations			
Increase in Cash and Cash Equivalents from Discontinued Operations	31(e)	**251,474**	105,289
(Decrease)/Increase in Cash and Cash Equivalents		**(458,660)**	649,934

	Note	2017 US$'000	2016 US$'000 (Restated)
Cash and Cash Equivalents at 1 January			
Continuing Operations		**830,558**	222,783
Discontinued Operations		**154,481**	119,460
		985,039	342,243
(Decrease)/Increase in Cash and Cash Equivalents		**(458,660)**	649,934
Effect of foreign exchange rate changes		**15,139**	(7,138)
Cash and cash equivalents classified as assets held for sale		**(192,578)**	–
Cash and Cash Equivalents of Continuing Operations as of 31 December		**348,940**	985,039
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	21	**348,940**	985,039

The notes on pages 180 to 271 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.

On 31 January 2018, the Independent Shareholders approved in the special general meeting (the "SGM") to divest the three Product Verticals. The financial results of the three Product Verticals for the year ended 31 December 2017 were presented as Discontinued Operations and comparatives for the year ended 31 December 2016 have been restated accordingly.

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, contingent consideration payable and written put option liabilities) at fair value through profit or loss.

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

(A) AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP

The following amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2017:

HKAS 7 Amendment	Disclosure Initiative
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

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.

(B) NEW STANDARD THAT IS EARLY ADOPTED BY THE GROUP

Early adoption of HKFRS 15, Revenue from Contracts with Customers

The Group has elected to apply HKFRS 15 Revenue from Contracts with Customers as issued in July 2014. In accordance with the transition provisions in HKFRS 15, the new rules have been adopted retrospectively and comparative figures have been restated. HKFRS 15 replaces the previous revenue standards.

The accounting policies for the Group's main types of revenue are explained in Note 1.21.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(B) NEW STANDARD THAT IS EARLY ADOPTED BY THE GROUP (continued)

Early adoption of HKFRS 15, Revenue from Contracts with Customers (continued)

The impact of the adoption of HKFRS 15 on the Group are as follows:

(i) HKFRS 15 provides clear guidance to determine the timing of control of goods transferred to customers. This change has resulted in decrease in retained earnings as at 1 January 2016 and 31 December 2016 by US$19,022,000 and US$21,091,000, and increase in other receivables as at 1 January 2016 and 31 December 2016 respectively by US$11,194,000 and US$11,894,000 respectively, increase in sundry payables as at 1 January 2016 and 31 December 2016 by US$34,450,000 and US$36,058,000 respectively and decrease in exchange reserve as at 1 January 2016 and 31 December 2016 by US$4,234,000 and US$3,073,000 respectively, and decrease in operating profit for the year ended 31 December 2016 by US$2,069,000.

(ii) HKFRS 15 provides guidance on determining whether the nature of the promise in the contract is a performance obligation to provide the specified goods or services itself or to arrange for those goods or services to be provided by the other party. This change has resulted in decrease in turnover and cost of sales for the year ended 31 December 2016 by US$94,377,000.

(C) NEW STANDARDS, NEW INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following new standards, new interpretations and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but the Group has not early adopted them:

HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures[2]
HKAS 40 Amendment	Transfer of Investment Property[1]
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 Amendment	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Annual Improvement Project	Annual Improvements 2014-2016 Cycle[1]
Annual Improvement Project	Annual Improvements 2015-2017 Cycle[2]

NOTES:

1 Effective for financial periods beginning on or after 1 January 2018
2 Effective for financial periods beginning on or after 1 January 2019
3 Effective for financial periods beginning on or after 1 January 2021
4 Effective date to be determined

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(C) NEW STANDARDS, NEW INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP (continued)

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.

There are no significant impact on the Group's accounting for financial liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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. The Group has confirmed that its current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, there are no significant impact on the accounting for 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. Based on the assessments undertaken to date, there will be an earlier recognition of credit losses for trade debtors.

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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(C) NEW STANDARDS, NEW INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP (continued)

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognized 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 recognized. 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's Continuing Operations has non-cancellable operating lease commitments of US$516,055,000, see Note 33. 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, new interpretations 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 2017.

(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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(A) SUBSIDIARIES (continued)

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.

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 and joint venture" 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, interest in joint venture is 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 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 ventures), 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 is 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.

1.3 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 Basis of Preparation and Principal Accounting Policies (continued)

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 joint venture 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 joint ventures 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 recognized 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 Services segment, Onshore Wholesale business of Products segment and Divested Asia Consumer and Healthcare Distribution Business.

1.20 Core Operating Profit

Core operating profit is the profit before taxation generated from the Group's Services segment, Onshore Wholesale business of Products segment and Divested Asia Consumer and Healthcare Distribution Business 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 and acquisition related cost. This also excludes gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets and one-off re-organization costs which are non-cash items.

1.21 Revenue Recognition

(A) TURNOVER FROM SALES OF GOODS

Turnover from sales of goods are primarily generated by the Supply Chain Solutions of the Services segment and the Products segment. Supply Chain Solutions provides end-to-end sourcing solutions of goods through the global network to a diverse portfolio of global brands and retail customers, while Products segment focuses on furniture, beauty and sweaters product verticals and Onshore Wholesale business.

Revenues are recognized when control of the goods has been transferred, being when the goods are delivered to the customers, the customers has full discretion over the channel and price to sell the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the goods have been shipped to the location specified by customer, the risks of obsolescence and loss have been transferred to the customers, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Revenue is shown net of value-added tax, returns, claims and discounts and after eliminating sales within the Group.

The goods are often sold with volume rebate based on aggregate sales over a specific period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume rebate. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume rebate payable to customers in relation to sales made until the end of the reporting period.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.21 Revenue Recognition (continued)

(A) TURNOVER FROM SALES OF GOODS (continued)

A contract liability is also recognized when the customers pay deposits before the Group transfers control of the goods to the customers.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(B) SERVICES FEE FROM LOGISTICS BUSINESS

Logistics business of the Services segment includes in-country logistics and global freight management. In-country logistics business offers logistics services including distribution center management, order management and local transportation. Global freight management offers full services international freight solutions. Service income is recognized in the accounting period in which the provision of services occurs. Customers are invoiced upon the completion of services or on a regular basis.

Some contracts include multiple performance obligations and do not include any integration services. They are therefore accounted for as separate performance obligations. Revenue from each of the performance obligations is recognized at the stand-alone service price.

No element of financing is deemed present as the sales are made with a credit term up to 120 days, which is consistent with market practice.

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 judgement of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated profit and loss account within administrative expenses.

1.29 Non-Current Assets Held-For-Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (or disposal groups), except for certain assets as explained below, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, and financial assets (other than investments in subsidiaries and associates), which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 1.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the profit and loss account, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets (or disposal groups) constituting the discontinued operation.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.30 Written Put Option Liabilities

The Discontinued Operations has granted a put option to a non-controlling interest shareholder of a subsidiary for the right to sell its full non-controlling interests to the Discontinued Operations. The Discontinued Operations recognizes the written put option liabilities initially at the present value of the redemption amount, which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired business, and a corresponding debit in equity. The written put option liability is subsequently remeasured at fair value, with changes in measurement recognized in profit and loss.

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).

(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.

2 Critical Accounting Estimates and Judgments (continued)

(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 about the 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$6 million.

3 Segment Information

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

In 2016, the Group divested the Asia consumer and healthcare distribution business from the Trading Network segment to refocus resources on core businesses.

At the beginning of 2017, the Group reorganized the business into two segments: Services and Products. The Services segment consists of the Supply Chain Solutions and Logistics businesses. The Products segment consists of the Onshore Wholesale business and the three Product Verticals (furniture, beauty and sweaters) representing our principal-to-principal business, which were previously under the Trading network.

On 14 December 2017, the Group announced the strategic divestment of the three Product Verticals to further simplify our business and facilitate sharper focus on the core sourcing business. The strategic divestment was approved by the Company's Independent Shareholders on 31 January 2018 and is targeted to close during first half of 2018, subject to regulatory approval. The three Product Verticals are classified as Discontinued Operations and their net results for the year and the comparatives are excluded from the Products segment and presented separately as one-line item below net profit of the Continuing Operations. Further details of financial information of the Discontinued operations are set out in Note 31 to the financial statements.

The Group's management (Chief Operating Decision-Marker) considers the business of the Continuing Operations principally from the perspective of Services segment and the Products segment with the exclusion of the strategic divestment. Prior year comparative segment information has been restated to conform with the current period presentation accordingly.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit. 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 other gains or losses which are of capital nature, non-operational related or acquisition related. 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 these consolidated financial statements.

3 Segment Information (continued)

	Services US$'000	Products US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2017				
Continuing Operations				
Turnover	**12,013,024**	**1,551,680**	**(30,495)**	**13,534,209**
Total margin	**1,085,908**	**300,364**		**1,386,272**
Operating costs	**(783,551)**	**(246,869)**		**(1,030,420)**
Core operating profit	**302,357**	**53,495**		**355,852**
Gain on remeasurement of contingent consideration payable				**31,492**
Amortization of other intangible assets				**(23,327)**
One-off reorganization costs				**(33,945)**
Operating profit				**330,072**
Interest income				**12,261**
Interest expenses				
Non-cash interest expenses				**(3,284)**
Cash interest expenses				**(66,477)**
				(69,761)
Share of profits less losses of associated companies and joint venture				**1,898**
Profit before taxation				**274,470**
Taxation				**(40,830)**
Net profit for the year from Continuing Operations				**233,640**
Discontinued Operations				
Net loss for the year from Discontinued Operations				**(543,045)**
Net loss for the year				**(309,405)**
Depreciation and amortization (Continuing Operations)	**52,590**	**18,108**		**70,698**
31 December 2017				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	**1,821,217**	**775,209**		**2,596,426**

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Divested Asia Consumer and Healthcare Distribution Business US$'000 (Restated)	Elimination US$'000 (Restated)	Total US$'000 (Restated)
Year ended 31 December 2016					
Continuing Operations					
Turnover	12,621,563	1,590,055	565,920	(26,316)	14,751,222
Total margin	1,087,654	320,316	87,057		1,495,027
Operating costs	(839,404)	(254,575)	(82,647)		(1,176,626)
Core operating profit	248,250	65,741	4,410		318,401
Amortization of other intangible assets					(20,011)
Gain on disposal of business					7,871
One-off reorganization costs					(5,863)
Operating profit					300,398
Interest income					15,713
Interest expenses					
Non-cash interest expenses					(3,971)
Cash interest expenses					(86,477)
					(90,448)
Share of profits less losses of associated companies and joint venture					1,748
Profit before taxation					227,411
Taxation					(32,288)
Net profit for the year from Continuing Operations					195,123
Discontinued Operations					
Net profit for the year from Discontinued Operations					61,068
Net profit for the year					256,191
Depreciation and amortization (Continuing Operations)	53,497	14,886	4,568		72,951
31 December 2016					
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	1,823,726	2,334,147	N/A		4,157,873

3 Segment Information (continued)

During the year, the Group has Services and Products as its new segments under Continuing Operations. Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	2017 US$'000	2016 US$'000 (Restated)
Turnover		
Supply Chain Solutions	**10,989,275**	11,717,669
Logistics Services	**1,028,069**	907,307
Elimination	**(4,320)**	(3,413)
	12,013,024	12,621,563

	2017 US$'000	2016 US$'000 (Restated)
Core Operating Profit		
Supply Chain Solutions	**227,254**	187,575
Logistics Services	**75,103**	60,675
	302,357	248,250

The geographical analysis of turnover to external customers and non-current assets of the Continuing Operations (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**	
	2017 US$'000	2016 US$'000 (Restated)	**2017 US$'000**	2016 US$'000 (Restated)
United States of America	**8,929,344**	9,631,341	**1,448,557**	1,985,433
Europe	**2,357,413**	2,361,498	**783,277**	1,066,770
Asia	**1,399,381**	1,821,441	**227,014**	907,012
Rest of the world	**848,071**	936,942	**137,578**	198,658
	13,534,209	14,751,222	**2,596,426**	4,157,873

3 Segment Information (continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, logistics services income, sales of goods of Products segment, and sales of goods of the divested Asia consumer and healthcare distribution business as follows:

	2017 US$'000	2016 US$'000 (Restated)
Sales of goods of Supply Chain Solutions business	**10,977,574**	11,699,917
Logistics services income	**1,014,958**	904,498
Sales of goods of Products segment	**1,541,677**	1,580,887
Sales of goods of divested Asia consumer and healthcare distribution business	**–**	565,920
	13,534,209	14,751,222

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

	2017 US$'000	2016 US$'000 (Restated)
Sales of soft goods	**9,298,376**	9,841,522
Sales of hard goods	**3,220,875**	4,005,202
Logistics services income	**1,014,958**	904,498
	13,534,209	14,751,222

For the year ended 31 December 2017, approximately 15% (2016 (restated): 15%) of the total turnover of the Group's Continuing Operations is derived from a single external customer, of which 15% (2016 (restated): 15%) and less than 1% (2016 (restated): less than 1%) are attributable to Services and Products segments respectively.

Segment information for the Discontinued Operations is set out in Note 31(b).

4 Operating Profit from Continuing Operations

Operating profit from Continuing Operations is stated after crediting and charging the following:

	2017 US$'000	2016 US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable (Note)*	**31,492**	–
Gain on disposal of business*	**–**	7,871
Net exchange gains	**2,922**	2,432
Charging		
Cost of inventories sold	**12,185,061**	13,276,977
Intangible assets written off on reorganization (Note 11) *	**10,502**	–
Property, plant and equipment written off on reorganization (Note 12) *	**14,988**	–
Other one-off reorganization costs*	**8,455**	5,863
Depreciation of property, plant and equipment (Note 12)	**39,017**	44,755
(Gain)/loss on disposal of property, plant and equipment and prepaid premium for land leases, net	**(953)**	340
Operating leases rental in respect of land and building	**143,255**	149,118
Provision for impaired receivables (Note 20)	**2,075**	52,241
Amortization of system development, software and other license costs (Note 11)	**8,347**	8,120
Amortization of prepaid premium for land leases (Note 13)	**7**	65
Amortization of other intangible assets (Note 11)*	**23,327**	20,011
Staff costs including directors' emoluments (Note 9) **	**754,511**	802,473

* Excluded from the core operating profit
** Including staff costs incurred as cost of inventories sold of US$133,376,000 (2016 (restated): US$121,682,000)

NOTE:
During the year, 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. Accordingly, a gain of approximately US$31 million was recognized. Among the total remeasurement gain, approximately US$30 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.

4 Operating Profit from Continuing Operations (continued)

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

	2017 US$'000	2016 US$'000 (Restated)
Audit services	**2,778**	3,090
Non-audit services		
– due diligence reviews on acquisitions	**–**	57
– taxation services	**638**	2,079
– others	**1,685**	537
Total remuneration to auditors charged to consolidated profit and loss account	**5,101**	5,763

NOTE:
Of the above audit and non-audit services fees, US$2,727,000 (2016 (restated): US$3,081,000) and US$2,323,000 (2016 (restated): US$2,673,000), respectively are payable to the Company's auditor.

Remuneration to the auditors for audit and non-audit services for the Discontinued Operations is set out in Note 31(c).

5 Interest Expenses from Continuing Operations

	2017 US$'000	2016 US$'000 (Restated)
Non-cash interest expenses on purchase consideration payable for acquisitions and long-term notes	**3,284**	3,971
Cash interest on bank loans, overdrafts and long-term notes	**66,477**	86,477
	69,761	90,448

6 Taxation from Continuing Operations

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 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:

	2017 US$'000	2016 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**4,046**	4,814
– Overseas taxation	**35,411**	37,948
Under/(over) provision in prior years	**3,049**	(1,433)
Deferred taxation (Note 29)	**(1,676)**	(9,041)
	40,830	32,288

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:

	2017 %	2016 % (Restated)
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(10.4)**	(10.4)
Expenses net of income not subject to taxation	**6.6**	7.8
Under/(over) provision in prior years	**1.2**	(0.6)
Utilization of previously unrecognized tax losses	**(0.6)**	(0.4)
Unrecognized tax losses	**1.6**	1.3
Effective tax rate	**14.9**	14.2

7 Earnings/(Losses) per Share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$170,418,000 (2016 (restated): US$160,009,000) and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$544,991,000 (2016 (restated): profit of US$61,068,000) and on the weighted average number of 8,364,801,000 (2016: 8,354,893,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,364,801,000 (2016: 8,354,893,000) ordinary shares in issue by 76,342,000 (2016: 56,573,000) 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

	2017 US$'000	2016 US$'000
Interim, paid, of HK$0.11 (equivalent to US$0.014) (2016: HK$0.11 (equivalent to US$0.014)) per ordinary share	**120,064**	119,291
Final, proposed, of HK$0.02 (equivalent to US$0.003) (2016: HK$0.12 (equivalent to US$0.015)) per ordinary share (Note (a))	**21,830**	130,136
Special, declared, of HK$0.476 (equivalent to US$0.0614) (2016: Nil) (Note (b))	**519,549**	–
	661,443	249,427

NOTES:

(a) At a meeting held on 22 March 2018, the Directors proposed a final dividend of HK$0.02 (equivalent to US$0.003) 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.

(b) The Board of Directors declared that a special dividend of 47.6 HK cents per share absorbing approximately US$520 million, payable out of part of the proceeds from the strategic divestment of Product Verticals business, be distributed to the Shareholders subject to Closing (as defined in the Circular).

9 Staff Costs including Directors' Emoluments from Continuing Operations

	2017 US$'000	2016 US$'000 (Restated)
Salaries and bonuses	**653,193**	693,582
Staff benefits	**34,621**	34,831
Pension costs of defined contribution plans (Note (a))	**51,484**	54,472
Employee share option and share award expenses	**13,020**	17,064
Pension costs of defined benefit plans (Note 28(ii))	**1,832**	2,161
Long-service payments	**361**	363
	754,511	802,473

NOTES:

(a) Forfeited contributions totalling US$62,000 (2016 (restated): US$457,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

(b) Staff costs of the Continuing Operations US$483,548,000 (2016 (restated): US$530,474,000), US$137,587,000 (2016 (restated): US$150,317,000) and US$133,376,000 (2016 (restated): US$121,682,000) 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 (2016: three) Directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments payable to the remaining two individuals (2016: two individuals) during the year are as follows:

	2017 US$'000	2016 US$'000
Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind	**2,454**	1,896
Discretionary bonuses	**1,162**	900
Contributions to pension scheme	**10**	4
	3,626	2,800

	Number of individuals	
Emolument bands	**2017**	2016
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$1,602,001 – US$1,667,000 (HK$12,500,001 – HK$13,000,000)	**1**	–
US$1,667,001 – US$1,731,000 (HK$13,000,001 – HK$13,500,000)	**–**	–
US$1,922,001 – US$1,986,000 (HK$15,000,001 – HK$15,500,000)	**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:

	Number of individuals	
Emolument bands	**2017**	2016
Below US$1,000,000	**6**	3
US$1,000,001 – US$1,500,000	**8**	7
US$1,500,001 – US$2,000,000	**1**	–

11 Intangible Assets

	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$'000	Other Intangible Assets: Others US$'000	Total US$'000
At 1 January 2017							
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
Year ended 31 December 2017							
Opening net book amount	3,557,240	22,889	38,686	237,651	30,843	9,664	3,896,973
Continuing Operations							
Exchange differences	43,827	690	–	1,479	329	–	46,325
Adjustments to provisional values for acquisition (Note(i))	437	–	–	(890)	–	–	(453)
Additions	–	24,097	–	–	–	–	24,097
Disposals	–	(554)	–	–	–	–	(554)
Write off	–	(10,502)	–	–	–	–	(10,502)
Amortization (Note 4)	–	(8,347)	(5,780)	(13,250)	(3,522)	(775)	(31,674)
Discontinued Operations							
Exchange differences	18,288	208	–	1,793	1,095	–	21,384
Acquisition of business	28,576	–	–	5,800	–	–	34,376
Additions	–	5,269	–	–	–	–	5,269
Amortization (Note 31)	–	(2,633)	–	(12,229)	(1,422)	(8)	(16,292)
Classified as assets held for sale	(1,480,290)	(7,079)	–	(120,119)	(14,365)	(85)	(1,621,938)
Closing Net Book Amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
At 31 December 2017							
Cost	2,168,078	49,629	67,867	196,363	25,528	11,940	2,519,405
Accumulated amortization	–	(25,591)	(34,961)	(96,128)	(12,570)	(3,144)	(172,394)
Net Book Amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011

NOTE:

(i) These were adjustments to net asset values related to acquisition of business in 2016, which were previously determined on a provisional basis. During the measurement period of twelve months following the transaction, the Group recognized adjustments to the provisional amounts 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 2017.

11 Intangible Assets (continued)

			Other Intangible Assets				
	Goodwill US$'000	System Development, Software and Other License Costs US$'000	Buying Agency Agreements US$'000	Customer Relationships US$'000	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
Continuing Operations							
Exchange differences	(61,311)	(459)	–	(3,343)	(110)	–	(65,223)
Acquisition of business	5,829	–	–	890	–	–	6,719
Additions	–	8,877	–	–	–	–	8,877
Disposal of business	(223,200)	(457)	–	(5,641)	–	(458)	(229,756)
Amortization (Note 4)	–	(8,120)	(3,875)	(13,732)	(1,628)	(776)	(28,131)
Discontinued Operations							
Exchange differences	(41,889)	(408)	–	(4,490)	(2,739)	–	(49,526)
Additions	–	4,337	–	–	–	–	4,337
Amortization (Note 31)	–	(3,397)	–	(12,311)	(1,471)	(8)	(17,187)
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

Amortization of system development, software and other license costs for the Continuing Operations of US$3,356,000 (2016 (restated): US$2,064,000) and US$4,991,000 (2016 (restated): US$6,056,000) 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	
	2017 US$'000	2016 US$'000 (Restated)
Services	**1,468,517**	1,500,080
Products	**699,561**	2,057,160
	2,168,078	3,557,240

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 2017						
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
Year ended 31 December 2017						
Opening net book amount	6,657	52,270	67,846	90,977	3,800	221,550
Continuing Operations						
Exchange differences	352	283	3,830	4,256	165	8,886
Additions	82	22,584	32,427	16,403	193	71,689
Disposals	(3,774)	(696)	(381)	(276)	(155)	(5,282)
Write off	–	–	(14,988)	–	–	(14,988)
Depreciation (Note 4)	(130)	(10,799)	(13,197)	(13,679)	(1,212)	(39,017)
Discontinued Operations						
Exchange differences	(316)	400	100	81	4	269
Acquisition of business	–	22	854	–	–	876
Additions	–	3,569	4,105	4,959	39	12,672
Disposals	–	(4)	(418)	(59)	–	(481)
Depreciation (Note 31)	(119)	(2,865)	(3,767)	(2,465)	(47)	(9,263)
Classified as assets held for sale	(1,554)	(9,715)	(9,961)	(17,390)	(70)	(38,690)
Closing Net Book Amount	1,198	55,049	66,450	82,807	2,717	208,221
At 31 December 2017						
Cost	1,214	154,940	102,129	104,980	4,394	367,657
Accumulated depreciation	(16)	(99,891)	(35,679)	(22,173)	(1,677)	(159,436)
Net Book Amount	1,198	55,049	66,450	82,807	2,717	208,221

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 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
Continuing Operations						
Exchange differences	(1,166)	(3,247)	(1,897)	(4,671)	(32)	(11,013)
Acquisition of business	–	322	75	–	1	398
Additions	189	8,196	22,502	38,276	515	69,678
Disposal of business	(2,674)	(3,436)	(2,011)	(17,911)	(1,223)	(27,255)
Disposals	(3,002)	(1,033)	(229)	(794)	(161)	(5,219)
Depreciation (Note 4)	(266)	(14,746)	(20,266)	(8,029)	(1,448)	(44,755)
Discontinued Operations						
Exchange differences	55	(70)	(296)	(35)	(1)	(347)
Additions	–	4,702	5,014	2,326	–	12,042
Disposal	(18)	(135)	(252)	(44)	–	(449)
Depreciation (Note 31)	(128)	(3,844)	(2,816)	(6,312)	(56)	(13,156)
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

Depreciation for the Continuing Operations of US$17,555,000 (2016 (restated): US$21,032,000), US$21,436,000 (2016 (restated): US$19,635,000) and US$26,000 (2016 (restated): US$4,088,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2017, the Group had no land and buildings pledged as security for bank borrowings (31 December 2016: US$Nil).

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:

	2017 US$'000	2016 US$'000
Beginning of the year	127	1,942
Disposal of business	–	(1,853)
Disposals	(54)	–
Amortization (Note 4)	(7)	(65)
Exchange differences	1	103
End of the year	67	127

Amortization of US$7,000 (2016:US$65,000) has been expensed in selling and distribution expenses.

14 Associated Companies

	2017 US$'000	2016 US$'000
Beginning of the year	11,005	10,070
Share of profits less losses of associated companies	2,173	1,921
Dividend received	(821)	(835)
Exchange differences	36	(151)
Total interests in associated companies	12,393	11,005

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

15 Joint Venture

	2017 US$'000	2016 US$'000
Beginning of the year	760	313
Capital injection	529	612
Share of loss of the joint venture	(275)	(173)
Exchange differences	(18)	8
Total interest in the joint venture	996	760

Details of the joint venture is set out in Note 43.

16 Available-for-Sale Financial Assets

	2017 US$'000	2016 US$'000
Beginning of the year	**4,164**	3,854
Fair value gains on available-for-sale financial assets, net of tax (Note 25)	**174**	310
End of the year	**4,338**	4,164

Available-for-sale financial assets are club debentures (Note 38) and denominated in HK dollar.

17 Inventories

	2017 US$'000	2016 US$'000
Finished goods	**142,790**	237,968
Raw materials	**5,013**	39,873
	147,803	277,841

18 Due from/(to) Related Companies

	2017 US$'000	2016 US$'000
Trade (Note (a))		
Due from:		
Associated companies	**4,879**	7,743
Other related companies	**450,714**	473,229
	455,593	480,972
Non-trade (Note (b))		
Due from:		
Associated companies	**877**	455
Other related companies	**6,693**	5,606
	7,570	6,061
	463,163	487,033
Due to:		
Other related companies	**(124)**	(2,093)

NOTES:

(a) As at 31 December 2017, trade balances due from related companies of US$431,113,000 were current or less than 90 days past due. Amounts past due over 90 days were US$24,480,000.

(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

	2017 US$'000	2016 US$'000
Forward foreign exchange contracts		
– (liabilities)/assets (Note 38)	**(5,355)**	10,697

Gain in equity of US$226,000 (2016: US$7,185,000) on forward foreign exchange contracts as of 31 December 2017 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 2017 and 2016, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

20 Trade and Other Receivables

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000 (Restated)	As at 1 January 2016 US$'000 (Restated)
Trade and bills receivable – net	**1,148,560**	1,547,208	1,689,413
Other receivables, prepayments and deposits	**177,990**	245,962	294,229
	1,326,550	1,793,170	1,983,642
Less: non-current portion other receivables, prepayments and deposits	**(27,738)**	(27,458)	(26,217)
	1,298,812	1,765,712	1,957,425

The fair values of the Group's trade and other receivables were approximately the same as their carrying values as at 31 December 2017.

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:

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000	As at 1 January 2016 US$'000
Up to 90 days	**1,058,741**	1,442,127	1,595,433
91 to 180 days	**72,515**	87,280	83,376
181 to 360 days	**11,115**	15,154	7,900
Over 360 days	**6,189**	2,647	2,704
	1,148,560	1,547,208	1,689,413

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

20 Trade and Other Receivables (continued)

As of 31 December 2017, trade receivables of US$1,130,958,000 (31 December 2016: US$1,529,486,000 and 1 January 2016: US$1,673,045,000) that were current or less than 90 days past due were not considered impaired. Trade receivables of US$17,602,000 (31 December 2016: US$17,722,000 and 1 January 2016: 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:

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000	As at 1 January 2016 US$'000
91 to 180 days	**6,998**	3,651	7,596
Over 180 days	**10,604**	14,071	8,772
	17,602	17,722	16,368

As of 31 December 2017, outstanding trade receivables of US$11,765,000 (31 December 2016: US$56,599,000 and 1 January 2016: US$35,252,000) and other receivables of US$3,315,000 (31 December 2016: US$17,452,000 and 1 January 2016: US$11,316,000) were considered impaired and were fully provided for.

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

	2017 US$'000	2016 US$'000
At 1 January	**74,051**	46,568
Continuing Operations		
Provision for receivable impairment (Note 4)	**3,416**	53,661
Provision written off against receivables	**(60,068)**	(21,771)
Unused amounts reversed (Note 4)	**(1,341)**	(1,420)
Disposal of business	**–**	(3,400)
Exchange difference	**186**	109
Discontinued Operations		
Provision for receivable impairment (Note 31)	**6,510**	1,302
Provision written off against receivables	**(952)**	(944)
Unused amounts reversed (Note 31)	**(42)**	(54)
Classified as assets held for sale	**(6,680)**	–
At 31 December	**15,080**	74,051

20 Trade and Other Receivables (continued)

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$1,724,000 (31 December 2016: US$22,773,000 and 1 January 2016: US$33,681,000) to banks in exchange for cash as at 31 December 2017. The transactions have been accounted for as collateralized bank advances.

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

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000 (Restated)	As at 1 January 2016 US$'000 (Restated)
US dollar	**939,738**	1,214,170	1,185,258
HK dollar	**55,131**	52,401	121,486
Euro	**52,982**	208,810	217,040
Pound sterling	**28,618**	82,235	75,001
Renminbi	**92,507**	85,802	143,031
Malaysia Ringgit	**5,839**	7,929	35,798
Thailand Baht	**15,328**	23,275	54,206
Others	**108,669**	91,090	125,605
	1,298,812	1,765,712	1,957,425

The Group has recognized revenue related contract assets amounting to US$11,380,000 (31 December 2016 (restated): US$11,894,000 and 1 January 2016 (restated): US$11,194,000).

21 Cash and Cash Equivalents

	2017 US$'000	2016 US$'000
Cash and bank balances	**348,940**	985,039

The effective interest rate at the balance sheet date on bank balances was 0.8% (2016: 0.8%) per annum; these deposits have an average maturity period of 2 days (2016: 5 days).

22 Trade and Other Payables

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000 (Restated)	As at 1 January 2016 US$'000 (Restated)
Trade and bills payable	**1,733,661**	2,083,875	2,464,785
Accrued charges and sundry payables	**468,089**	553,292	635,579
	2,201,750	2,637,167	3,100,364

The fair values of the Group's trade and other payables were approximately the same as their carrying values as at 31 December 2017.

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

	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000	As at 1 January 2016 US$'000
Up to 90 days	**1,645,884**	2,003,134	2,365,315
91 to 180 days	**66,176**	60,532	80,822
181 to 360 days	**9,552**	10,814	2,885
Over 360 days	**12,049**	9,395	15,763
	1,733,661	2,083,875	2,464,785

The Group has recognized revenue related contract liabilities amounting to US$96,188,000 (31 December 2016 (restated): US$80,849,000 and 1 January 2016 (restated): US$99,414,000).

23 Bank Borrowings

	2017 US$'000	2016 US$'000
Long-term bank loans		
– Unsecured (Note 27)	**1,558**	–
Short-term bank loans		
– Unsecured	**22,970**	29,180
Total bank borrowings	**24,528**	29,180

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2017.

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

	2017			2016		
	PHP	**IDR**	**Others**	PHP	IDR	Others
Long-term bank loans	**–**	**–**	**10.0%**	–	–	–
Short-term bank loans	**3.1%**	**6.6%**	**2.2%**	3.1%	8.0%	2.1%

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:

	2017 US$'000	2016 US$'000
Philippine Peso	**11,469**	14,581
Indonesian Rupiah	**4,736**	7,400
Others	**8,323**	7,199
	24,528	29,180

24 Share Capital, Share Options and Award Shares

	No. of Shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
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
At 1 January 2017, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
At 31 December 2017, ordinary shares of HK$0.0125 each	**12,000,000**	**150,000**	**19,231**
Issued and Fully Paid			
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
At 1 January 2017, ordinary shares of HK$0.0125 each	**8,415,447**	**105,193**	**13,487**
Issue of new Shares of HK$0.0125 each pursuant to Share Award Scheme (Note)	**54,509**	**681**	**87**
At 31 December 2017, ordinary shares of HK$0.0125 each	**8,469,956**	**105,874**	**13,574**

NOTE:
The closing market price per Share on the date of issue of new Shares on 13 July 2017 was HK$2.83 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 2017 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Exercisable Period	As at 1/1/2017	Granted	Lapsed	As at 31/12/2017
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	27,670,000	–	–	27,670,000
21/5/2015	7.49	1/1/2017-31/12/2018	28,727,000	–	–	28,727,000
21/5/2015	7.49	1/1/2018-31/12/2019	28,878,000	–	–	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
19/05/2016	4.27	1/1/2018-31/12/2019	604,000	–	–	604,000
13/07/2017	2.86	1/1/2018-31/12/2019	–	125,000	–	125,000
		Total	100,768,000	125,000	(2,000,000)	98,893,000

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 2017, no Shares have been allotted and issued under the Share Option Schemes.

The Share Options outstanding at 31 December 2017 had a weighted average remaining contractual life of 1.25 years (2016: 2.21 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:

Date of grant	22/12/2011	21/5/2015	16/11/2015	19/05/2016	13/07/2017
Option value	US$0.53–US$0.77	US$0.13–US$0.17	US$0.10–US$0.11	US$0.08	US$0.05
Share price at date of grant	HK$14.14	HK$7.49	HK$5.33	HK$4.27	HK$2.83
Exercisable price	HK$12.12 (Note (i))	HK$7.49	HK$5.81	HK$4.27	HK$2.86
Standard deviation	49%	33%	31%	31%	35%
Annual risk-free interest rate	0.15%-1.35%	0.08%-1.22%	0.08%-1.25%	0.53%-0.84%	0.53%-0.84%
Life of options	5–12 years	2–5 years	3–5 years	3–4 years	2–4 years
Dividend yield	2.39%	4.06%	4.06%	4.33%	6.36%

NOTE:

(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 2017 are as follows:

Grant Date	Fair Value per Share HK$	Vesting Date	Number of Award Shares As at 1/1/2017	Granted	Vested	Unvested/ Forfeited	As at 31/12/2017
21/5/2015	7.49	31/12/2017	18,269,500	–	(16,620,400)	(1,649,100)	–
21/5/2015	7.49	31/12/2018	12,634,400	–	–	(1,173,300)	11,461,100
21/5/2015	7.49	31/12/2019	6,350,900	–	–	(592,600)	5,758,300
16/11/2015	5.33	31/12/2017	312,700	–	(263,800)	(48,900)	–
16/11/2015	5.33	31/12/2018	309,100	–	–	(48,300)	260,800
16/11/2015	5.33	31/12/2019	222,800	–	–	(33,800)	189,000
19/5/2016	4.27	31/12/2017	382,800	–	(333,500)	(49,300)	–
19/5/2016	4.27	31/12/2018	370,600	–	–	(47,600)	323,000
19/5/2016	4.27	31/12/2019	362,600	–	–	(46,100)	316,500
14/11/2016	3.53	31/12/2017	67,600	–	(63,800)	(3,800)	–
14/11/2016	3.53	31/12/2018	64,700	–	–	(3,600)	61,100
14/11/2016	3.53	31/12/2019	64,700	–	–	(3,600)	61,100
13/7/2017	2.83	31/12/2017	–	13,000	(12,200)	(800)	–
13/7/2017	2.83	31/12/2018	–	23,910,000	–	(1,548,600)	22,361,400
13/7/2017	2.83	31/12/2019	–	22,977,000	–	(1,402,600)	21,574,400
13/7/2017	2.83	31/12/2020	–	22,965,000	–	(1,402,000)	21,563,000
		Total	39,412,400	69,865,000	(17,293,700)	(8,054,000)	83,929,700

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 69,865,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 8,734,000 Award Shares were awarded to connected persons. A total of 10,702,818 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 4,080,918 Award Shares to connected persons and 6,621,900 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 4,653,082 Award Shares were purchased from the open market to satisfy awards to connected persons and 54,509,100 new Shares were allotted and issued by the Company to satisfy awards to non-connected persons pursuant to the terms of the Share Award Scheme.

25 Reserves

	Treasury Shares 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 2017, as previously reported	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(331,651)	431,450
Impact of adoption of HKFRS 15	–	–	–	–	–	–	–	(3,073)	(3,073)
Balance at 1 January 2017, as restated	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(334,724)	428,377
Other Comprehensive Income/(Expense)									
Currency translation differences	–	–	–	–	–	–	–	82,167	82,167
Net fair value gains on available-for-sale financial assets, net of tax (Note 16)	–	–	–	–	174	–	–	–	174
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(6,959)	–	–	(6,959)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	–	–	–	–	6	–	6
Transactions with Owners in their Capacity as Owners									
Purchase of shares for Share Award Scheme	(1,706)	–	–	–	–	–	–	–	(1,706)
Issuance of shares for Share Award Scheme	(87)	–	–	–	–	–	–	–	(87)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	16,735	–	–	–	–	16,735
– vesting of shares for Share Award Scheme	2,450	–	–	(16,441)	–	–	–	–	(13,991)
Transfer to capital reserve	–	4,861	–	–	–	–	–	–	4,861
Balance at 31 December 2017	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577

25 Reserves (continued)

	Treasury Shares 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, as previously reported	(13,300)	2,306	710,000	54,662	2,845	2,812	(11,129)	(193,293)	554,903
Impact of adoption of HKFRS 15	–	–	–	–	–	–	–	(4,234)	(4,234)
Balance at 1 January 2016, as restated	(13,300)	2,306	710,000	54,662	2,845	2,812	(11,129)	(197,527)	550,669
Other Comprehensive (Expense)/Income									
Currency translation differences	–	–	–	–	–	–	–	(137,197)	(137,197)
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 of post-employment benefit obligations 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, as restated	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(334,724)	428,377

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) Contribution 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 shares represent the excess shares issued for settlement of consideration for certain prior year acquisitions and shares issued and purchased for Share Award Scheme held by the escrow agent.

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 2017 and 2016 included the accrued distribution payments.

27 Long-term Liabilities

	2017 **US$'000**	2016 US$'000
Long-term bank loan – unsecured (Note 23)	**1,558**	–
Long-term notes – unsecured	**752,432**	1,253,277
Purchase consideration payable for acquisitions	**61,583**	161,536
Other non-current liabilities	**27,476**	32,589
	843,049	1,447,402
Current portion of long-term notes – unsecured	**–**	(499,819)
Current portion of purchase consideration payable for acquisitions	**(42,166)**	(67,794)
	800,883	879,789

Unsecured long-term notes issued to independent third parties in 2010 of US$752,432,000 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 2017 amounted to US$61,583,000 (2016: US$161,536,000), of which US$44,162,000 (2016: US$105,598,000) was primarily earn-out and US$17,421,000 (2016: US$55,938,000) 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 period 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 38.

The maturity of financial liabilities is as follows:

	2017 **US$'000**	2016 US$'000
Within 1 year	**42,166**	567,613
Between 1 and 2 years	**15,730**	92,184
Between 2 and 5 years	**763,311**	759,023
Wholly repayable within 5 years	**821,207**	1,418,820
Over 5 years	**21,842**	28,582
	843,049	1,447,402

27 Long-term Liabilities (continued)

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

	2017 US$'000	2016 US$'000
Long-term bank loan – unsecured	**1,558**	–
Long-term notes – unsecured	**784,395**	803,817
Purchase consideration payable for acquisitions	**19,417**	93,742
Other non-current liabilities	**27,476**	36,872
	832,846	934,431

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

	2017 US$'000	2016 US$'000
US dollar	**802,048**	1,376,652
Pound sterling	**12,935**	18,227
Others	**28,066**	52,523
	843,049	1,447,402

28 Post-employment Benefit Obligations

	2017 US$'000	2016 US$'000
Pension obligations (Note)	**13,177**	18,560
Long-service payment liabilities	**988**	3,957
	14,165	22,517

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:

	2017 US$'000	2016 US$'000
Present value of funded obligations	**41,978**	39,430
Fair value of plan assets	**(28,801)**	(20,870)
Net liabilities in the consolidated balance sheet	**13,177**	18,560

28 Post-employment Benefit Obligations (continued)

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

	2017 US$'000	2016 US$'000
Current service cost	**1,450**	1,618
Past service cost and (gain)/loss on settlements	**(105)**	40
Administrative expenses paid	**64**	110
Net interest expense	**423**	393
Total, included in staff costs (Note 9)	**1,832**	2,161

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

	2017 US$'000	2016 US$'000
At 1 January	**20,870**	22,829
Interest income	**490**	590
Exchange differences	**1,738**	(2,267)
Administrative expenses paid	**(64)**	(110)
Contributions	**7,073**	1,446
Benefits paid	**(2,496)**	(2,092)
Actuarial gain on plan assets	**1,190**	832
Disposal of business	**–**	(358)
At 31 December	**28,801**	20,870

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

	2017 US$'000	2016 US$'000
At 1 January	**39,430**	39,642
Current service cost	**1,450**	1,618
Interest cost	**913**	983
Past service cost and (gain)/loss on settlements	**(105)**	40
Actuarial (gains)/losses from changes in experiences	**(547)**	751
Actuarial losses from changes in financial assumptions	**1,288**	3,169
Actuarial losses/(gains) from changes in demographic assumptions	**16**	(34)
Exchange differences	**3,006**	(3,063)
Benefits paid	**(3,473)**	(3,281)
Disposal of business	**–**	(395)
At 31 December	**41,978**	39,430

28 Post-employment Benefit Obligations (continued)

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

	2017 US$'000	2016 US$'000
At 1 January	**18,560**	16,813
Exchange differences	**1,268**	(796)
Total expense charged in the consolidated profit and loss account	**1,832**	2,161
Remeasurement (gains)/losses recognized in other comprehensive income	**(433)**	3,054
Contributions paid	**(7,073)**	(1,446)
Benefits paid	**(977)**	(1,189)
Disposal of business	**–**	(37)
At 31 December	**13,177**	18,560

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

	2017 %	2016 %
Discount rate	**0.9-6.9**	1.2-8.2
Salary growth rate	**2.4-8.0**	2.4-8.0
Pension growth rate	**1.0-4.5**	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%**	**–2.70%**	**+2.83%**

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

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

28 Post-employment Benefit Obligations (continued)

(vii) Plan assets comprised:

	2017 US$'000	2016 US$'000
Quoted assets		
Cash and cash equivalents	**12,584**	7,327
Equity instruments		
European	**2,947**	2,563
American	**625**	622
Asian	**980**	713
Global	**138**	4
Debt instruments		
Government securities	**6,092**	4,380
Other securities and debt instruments	**3,908**	3,584
Investment funds		
Unit investment trust funds	**620**	596
Investment bond funds	**688**	790
Mutual funds	**41**	141
Others	**178**	150
	28,801	20,870

The weighted average duration of the defined benefit obligation ranges from 8.5 to 18.9 years.

(viii) Expected maturity analysis of benefit payments:

At 31 December 2017	Within 10 years US$'000	Between 10-20 years US$'000	Beyond 20 years US$'000
Expected benefit payments	**26,730**	**28,879**	**27,468**

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.

28 Post-employment Benefit Obligations (continued)

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

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 (assets)/liabilities are as follows:

	2017 US$'000	2016 US$'000
At 1 January	**12,532**	(1,163)
Continuing Operations		
Credited to consolidated profit and loss account (Note 6)	**(1,676)**	(9,041)
Acquisition of businesses	**–**	(177)
Disposal of business	**–**	16,320
Credited to other comprehensive income	**(1,458)**	–
(Credited)/charged to hedging reserve	**(3,313)**	1,156
Exchange differences	**(3,463)**	613
Discontinued Operations		
(Credited)/charged to consolidated profit and loss account	**(2,205)**	3,832
Acquisition of business	**489**	–
Exchange differences	**394**	992
Classified as assets held for sale	**(14,063)**	–
At 31 December	**(12,763)**	12,532

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$186,467,000 (2016: US$166,904,000) to carry forward against future taxable income, out of which US$4,697,000 will expire during 2018-2022. 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.

29 Deferred Taxation (continued)

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

	Provisions		Decelerated Tax Depreciation Allowances		Tax Losses		Others		Total	
Deferred Tax Assets	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
At 1 January	**20,202**	24,037	**7,715**	9,682	**13,925**	22,580	**4,677**	3,475	**46,519**	59,774
Continuing Operations										
(Charged)/credited to consolidated profit and loss account	**(9,619)**	3,226	**(2,597)**	(697)	**7,957**	7,248	**770**	1,288	**(3,489)**	11,065
Credited to other comprehensive income	**–**	–	**–**	–	**–**	–	**1,458**	–	**1,458**	–
Disposal of business	**–**	(6,739)	**–**	(115)	**–**	(12,262)	**–**	(145)	**–**	(19,261)
Exchange differences	**3,360**	(599)	**209**	(324)	**576**	(320)	**20**	22	**4,165**	(1,221)
Discontinued Operations										
(Charged)/credited to consolidated profit and loss account	**(852)**	292	**(412)**	(127)	**454**	(3,058)	**201**	63	**(609)**	(2,830)
Acquisition of business	**468**	–	**–**	–	**–**	–	**–**	–	**468**	–
Exchange differences	**276**	(15)	**170**	(704)	**308**	(263)	**28**	(26)	**782**	(1,008)
Classified as held for sale	**(2,771)**	–	**(3,871)**	–	**(4,755)**	–	**(413)**	–	**(11,810)**	–
At 31 December	**11,064**	20,202	**1,214**	7,715	**18,465**	13,925	**6,741**	4,677	**37,484**	46,519

29 Deferred Taxation (continued)

Deferred Tax Liabilities	Accelerated Tax Depreciation Allowances 2017 US$'000	Accelerated Tax Depreciation Allowances 2016 US$'000	Intangible Assets Arising from Business Combinations 2017 US$'000	Intangible Assets Arising from Business Combinations 2016 US$'000	Others 2017 US$'000	Others 2016 US$'000	Total 2017 US$'000	Total 2016 US$'000
At 1 January	**5,160**	6,496	**50,528**	49,030	**3,363**	3,085	**59,051**	58,611
Continuing Operations								
Charged/(credited) to consolidated profit and loss account	**2,057**	1,732	**(7,471)**	1,257	**249**	(965)	**(5,165)**	2,024
Acquisition of businesses	**–**	(177)	**–**	–	**–**	–	**–**	(177)
Disposal of business	**–**	(2,538)	**–**	(403)	**–**	–	**–**	(2,941)
(Credited)/charged to hedging reserve	**–**	–	**–**	–	**(3,313)**	1,156	**(3,313)**	1,156
Exchange differences	**143**	(441)	**25**	–	**534**	(167)	**702**	(608)
Discontinued Operations								
(Credited)/charged to consolidated profit and loss account	**(20)**	95	**(2,654)**	653	**(140)**	254	**(2,814)**	1,002
Acquisition of business	**–**	–	**957**	–	**–**	–	**957**	–
Exchange differences	**111**	(7)	**1,026**	(9)	**39**	–	**1,176**	(16)
Classified as held for sale	**(597)**	–	**(25,123)**	–	**(153)**	–	**(25,873)**	–
At 31 December	**6,854**	5,160	**17,288**	50,528	**579**	3,363	**24,721**	59,051

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

	2017 US$'000	2016 US$'000
Deferred tax assets	**17,456**	16,419
Deferred tax liabilities	**(4,693)**	(28,951)
	12,763	(12,532)

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

	2017 US$'000	2016 US$'000
Deferred tax assets to be recovered after more than 12 months	**9,893**	4,038
Deferred tax assets to be recovered within 12 months	**7,563**	12,381
Deferred tax liabilities to be settled after more than 12 months	**4,603**	24,967
Deferred tax liabilities to be settled within 12 months	**90**	3,984

30 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of Profit Before Taxation to Net Cash Inflow Generated from Operations

	2017 US$'000	2016 US$'000 (Restated)
Profit before taxation	**274,470**	227,411
Interest income	**(12,261)**	(15,713)
Interest expenses	**69,761**	90,448
Depreciation	**39,017**	44,755
Amortization of system development, software and other license costs	**8,347**	8,120
Amortization of other intangible assets	**23,327**	20,011
Amortization of prepaid premium for land leases	**7**	65
Property, plant and equipment written off on reorganization	**14,988**	–
Intangible assets written off on reorganization	**10,502**	–
Share of profits less losses of associated companies and joint venture	**(1,898)**	(1,748)
Employee share option and share award expenses	**13,020**	17,064
Gain on disposal of business	**–**	(7,871)
(Gain)/loss on disposal of property, plant and equipment and prepaid premium for land leases, net	**(953)**	340
Gain on remeasurement of contingent consideration payable	**(31,492)**	–
Operating profit before working capital changes	**406,835**	382,882
Decrease in inventories	**20,411**	48,938
Decrease/(increase) in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	**93,728**	(42,709)
Decrease in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	**(161,355)**	(84,715)
Net cash inflow generated from operations	**359,619**	304,396

30 Notes to the Consolidated Cash Flow Statement (continued)

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

	2017			2016		
	Share Capital Including Share Premium US$'000 (Note 24 & 39(a))	**Bank Loans US$'000**	**Long-terms Notes US$'000**	Share capital Including Share Premium US$'000 (Note 24 & 39(a))	Bank Loans US$'000	Long-terms Notes US$'000
At 1 January	**728,023**	**29,180**	**1,253,277**	718,105	195,819	1,253,823
Non-cash movement:						
Issue of shares for Share Award Scheme	**87**	**–**	**–**	–	–	–
Vesting of shares for Share Award Scheme	**13,991**	**–**	**–**	9,918	–	–
Non-cash interest	**–**	**–**	**(845)**	–	–	(546)
	742,101	**29,180**	**1,252,432**	728,023	195,819	1,253,277
Continuing Operations						
Net repayment of bank loans	**–**	**(938)**	**–**	–	(168,193)	–
Repayment of long-term notes	**–**	**–**	**(500,000)**	–	–	–
Accrued interest	**–**	**16,753**	**49,724**	–	19,602	66,875
Interest paid	**–**	**(16,753)**	**(49,724)**	–	(19,602)	(66,875)
Discontinued Operations						
Net drawdown of bank loans	**–**	**1,647**	**–**	–	1,554	–
Acquisition of business	**–**	**171**	**–**	–	–	–
Accrued interest	**–**	**2,782**	**–**	–	1,048	–
Interest paid	**–**	**(2,782)**	**–**	–	(1,048)	–
Liabilities associated with assets classified as held for sale	**–**	**(5,532)**	**–**	–	–	–
At 31 December	**742,101**	**24,528**	**752,432**	728,023	29,180	1,253,277

31 Discontinued Operations

The results of the three Product Verticals of the Company (the "Business") are presented in the consolidated profit and loss account as Discontinued Operations in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The consolidated statement of comprehensive income and consolidated cash flow statement distinguish the Discontinued Operations from the Continuing Operations and the assets classified as held for sale and liabilities associated with assets classified as held for sale.

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows:

	2017 US$'000	2016 US$'000
Turnover	**1,926,795**	1,939,118
Cost of sales	**(1,470,150)**	(1,474,118)
Gross profit	**456,645**	465,000
Selling and distribution expenses	**(120,575)**	(121,093)
Merchandising and administrative expenses	**(257,843)**	(252,379)
Core operating profit	**78,227**	91,528
Amortization of other intangible assets	**(13,659)**	(13,790)
Operating profit	**64,568**	77,738
Interest income	**563**	611
Interest expenses	**(2,782)**	(1,048)
Profit before taxation	**62,349**	77,301
Taxation	**(13,031)**	(16,233)
Profit after taxation	**49,318**	61,068
Remeasurement loss on assets classified as held for sale	**(592,363)**	–
Net (loss)/profit for the year	**(543,045)**	61,068
Attributable to:		
Shareholders of the Business	**(544,991)**	61,068
Non-controlling interest	**1,946**	–
	(543,045)	61,068

31 Discontinued Operations (continued)

(a) Results of the Discontinued Operations have been included in the consolidated profit and loss accounts as follows: (continued)

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	2017 US$'000	2016 US$'000
Net (Loss)/Profit for the Year	**(543,045)**	61,068
Other Comprehensive Income/(Expense):		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**28,157**	(55,244)
Net fair value gains on cash flow hedges, net of tax	**38**	364
Total Items That May Be Reclassified Subsequently to Profit or Loss	**28,195**	(54,880)
Total Other Comprehensive Income/(Expense) for the Year, Net of Tax	**28,195**	(54,880)
Total Comprehensive (Expense)/Income for the Year	**(514,850)**	6,188
Attributable to:		
Shareholders of the Business	**(516,796)**	6,188
Non-controlling interest	**1,946**	–
	(514,850)	6,188

(b) Geographical Analysis of Turnover of the Discontinued Operations

The turnover consists of sales to United States of America of US$1,010,500,000 (2016: US$1,005,932,000), Europe of US$558,522,000 (2016: US$620,370,000), Asia of US$239,961,000 (2016: US$192,764,000) and Rest of the world US$117,812,000 (2016: US$120,052,000).

31 Discontinued Operations (continued)

(c) Operating Profit of the Discontinued Operations

Operating profit of the Discontinued Operations is stated after charging/(crediting) the following:

	2017 US$'000	2016 US$'000
Charging/(Crediting)		
Cost of inventories sold	**1,470,150**	1,474,118
Amortization of system development, software and other license costs	**2,633**	3,397
Amortization of other intangible assets (excluded from the core operating profit)	**13,659**	13,790
Depreciation of property, plant and equipment	**9,263**	13,156
Loss on disposal of property, plant and equipment	**241**	449
Operating leases rental in respect of land and building	**14,237**	15,477
Provision for impaired receivables (Note 20)	**6,468**	1,248
Staff costs	**161,276**	167,852
Net exchange (gains)/losses	**(795)**	66
Remeasurement loss on assets classified as held for sale (excluded from the core operating profit) *	**592,363**	–

* The three Product Verticals were recognized as assets held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and were required to be marked down to the lower of their carrying value and fair value less costs to sell. In such respect, an unrealized non-cash remeasurement loss of US$592 million was recognized as of 31 December 2017, estimated based on the carrying value of the relevant goodwill and other asset/liabilities of the three Product Verticals as of 31 December 2017, on cash free/debt free basis and adjusted for relevant closing adjustments.

The remuneration to the auditors of the Discontinued Operations is as follows:

	2017 US$'000	2016 US$'000
Audit services	**960**	673
Non-audit services		
– due diligence reviews on acquisitions	**61**	–
– taxation services	**549**	526
– others	**620**	–
Total remuneration to auditors charged to Discontinued Operations profit and loss account	**2,190**	1,199

NOTE:
Of the above audit and non-audit services fees, US$922,000 (2016: US$673,000) and US$1,230,000 (2016: US$526,000), respectively are payable to the Company's auditor.

31 Discontinued Operations (continued)

(d) Assets and Liabilities of the Discontinued Operations

The assets and liabilities related to the Discontinued Operations have been presented as assets classified as held for sale and liabilities associated with assets classified as held for sale. The Discontinued Operations' assets and liabilities were measured at the lower of carrying amount and fair value less costs to sell at the date of held for sale classification. The major classes of assets and liabilities of the Discontinued Operations are as follows:

	31 December 2017 US$'000
(i) Assets Classified as Held for Sale	
Intangible assets	**1,621,938**
Property, plant and equipment	**38,690**
Other non-current assets	**7,702**
Inventories	**125,270**
Trade and other receivables	**247,228**
Other current assets	**22**
Cash and bank balances	**192,578**
	2,233,428
Remeasurement loss on assets classified as held for sale	**(592,363)**
Assets classified as held for sale after remeasurement loss	**1,641,065**
(ii) Liabilities Associated with Assets Classified as Held for Sale	
Trade and other payables	**347,372**
Other current liabilities	**18,906**
Short-term bank loans	**5,532**
Other non-current liabilities	**94,760**
	466,570

31 Discontinued Operations (continued)

(e) An analysis of the cash flows of the Discontinued Operations is as follows:

	2017 US$'000	2016 US$'000
Net cash inflow from operating activities	**258,647**	117,857
Net cash outflow from investing activities	**(6,038)**	(13,074)
Net cash (outflow)/inflow from financing activities*	**(1,135)**	506
Total cash flow	**251,474**	105,289

* Amounts adjusted to eliminate impact from financing activities between the Discontinued Operations and the Continuing Operations.

(f) Contingent Liabilities

	2017 US$'000	2016 US$'000
Guarantees in respect of banking facilities granted to:		
Trading partners	**387**	–

(g) Commitments

(i) OPERATING LEASE COMMITMENTS

The Discontinued Operations has total future aggregated minimum lease payments under non-cancellable operating leases as follows:

	2017 US$'000	2016 US$'000
Within one year	**2,843**	2,666
In the second to fifth year inclusive	**7,311**	6,986
After the fifth year	**6,234**	7,726
	16,388	17,378

(ii) CAPITAL COMMITMENTS

	2017 US$'000	2016 US$'000
Contracted but not provided for:		
Property, plant and equipment	**5,663**	107

31 Discontinued Operations (continued)

(h) Related Party Transactions

The Discontinued Operations has the following related party transactions during the year ended 31 December 2017:

	2017 US$'000	2016 US$'000
Distribution and sales of goods	**883**	2,788

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.

(i) 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 combined entity is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

In August 2017, the Group formed a joint venture with South Ocean Knitters Holdings Limited ("South Ocean"), a company incorporated with limited liability under the laws of the British Virgin Islands, which engages in knitwear manufacturing, spinning, dying, knitting, and finishing. Since completion of the transaction on 30 September 2017, the joint venture vehicle, Cobalt Fashion Holding Limited, is owned 62% by the Discontinued Operations and 38% by South Ocean. No cash consideration was paid by the Group in connection with the combination of these two businesses. Other than joint venture Cobalt Fashion Holding Limited, no other assets or shares subject to the strategic divestment of the three Product Verticals have been acquired in the past 12 months.

32 Contingent Liabilities from Continuing Operations

	2017 US$'000	2016 US$'000
Guarantees in respect of banking facilities granted to:		
Associated companies	**750**	750

33 Commitments from Continuing Operations

(a) Operating Lease Commitments from Continuing Operations

The Continuing Operations of 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 2017, the Continuing Operation of the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
Within one year	**145,887**	112,430
In the second to fifth year inclusive	**286,877**	220,075
After the fifth year	**83,291**	76,750
	516,055	409,255

(b) Capital Commitments from Continuing Operations

	2017 **US$'000**	2016 US$'000 (Restated)
Contracted but not provided for:		
Property, plant and equipment	**4,510**	2,558
System development, software and other license costs	**5,030**	3,134
	9,540	5,692

34 Charges on Assets from Continuing Operations

Save as disclosed in Note 12, there were no charges on the assets and undertakings of the Group as at 31 December 2017 and 2016.

35 Related Party Transactions from Continuing Operations

The Continuing Operations of the Group had the following material transactions with its related parties during the year ended 31 December 2017 and 2016:

	Note	**2017 US$'000**	2016 US$'000 (restated)
Distribution and sales of goods	(i)	**14,954**	17,302
Operating leases rental and license fee paid	(ii)	**24,437**	26,242
Operating lease rental and license fee received	(ii)	**1,370**	–
Sourcing and supply chain management services income	(iii)	**1,328,648**	1,412,770
Rental and license fee paid	(iv)	**–**	1,027
Rental and license fee received	(iv)	**–**	3,282
Logistics related services income	(v)	**16,598**	15,530
Sourcing and supply chain management services income	(vi)	**48,630**	–

(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 lease agreement (the "Master Lease Agreement") for leasing of properties or sub-leasing and/or licensing arrangement dated 14 November 2016 entered into with FH (1937) and its associates for a term of three years ending 31 December 2019, 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. For the year ended 31 December 2017, aggregate operating lease rental and license fee paid to and from one another approximated to US$25,807,000 (2016: US$26,242,000).

(iii) Pursuant to the buying agency agreement (the "Old Buying Agency Agreement") entered into with Global Brands 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. In view of the expiry of the Old Buying Agency Agreement, the Group has entered into the amended and restated buying agency agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term commencing on 9 July 2017 and ending on 31 March 2020. For the year ended 31 December 2017, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US$1,328,648,000 (2016: US$1,412,770,000).

(iv) Pursuant to the master property agreement entered into with Global Brands 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 to 31 December 2016. In view of expiry of the existing Master Lease Agreement, the Company has entered into the renewal Master Lease Agreement as aforementioned in (ii). For the year ended 31 December 2016, aggregate rental and license fee paid to and from one another approximated to US$4,309,000.

(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$16,598,000 (2016: US$15,530,000).

(vi) Pursuant to the sourcing and supply chain management agreement entered into with Trinity on 7 June 2017, the Group provided sourcing and supply chain management services to Trinity and its associates for a term from 1 June 2017 to 31 December 2019. For the year ended 31 December 2017, the commission received for sourcing and supply chain management services to Trinity was US$5,219,000 (2016: Nil) and the underlying FOB value of the ordered products was US$43,411,000 (2016: Nil).

35 Related Party Transactions from Continuing Operations (continued)

During 2016, 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.

On 14 December 2017, the Company entered into a sale and purchase Agreement with True Sage Limited, an entity incorporated in the British Virgin Islands, which will be owned by United Strength Element Limited, ("USEL") (an investment holding company wholly-owned by Hony Capital, an independent third party), FH (1937) (a substantial shareholder of the Company) and Fung Investments Limited, to divest the three Product Verticals under the Products segment for a total cash consideration of US$1,100 million on a cash free/debt free basis, subject to closing adjustment. This strategic divestment was approved by the Company's Independent Shareholders on 31 January 2018 and is targeted to close during first half of 2018, subject to regulatory approval.

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.

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 40.

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

36 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 are in HK dollar and US dollar deposits with major global financial institutions, and most of the Group's borrowings are denominated in US dollars.

The Group's revenues and payments were transacted predominantly in US dollars. 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 through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, the Group hedge its foreign currency exposure once it receives confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, the Group regularly reviews the operations in these countries and makes necessary hedging arrangements in certain currencies against the US dollar.

36 Financial Risk Management (continued)

(a) Market Risk (continued)

(i) FOREIGN EXCHANGE RISK (continued)

However, the Group does not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of its non-US dollar foreign operations for either the income statements or balance sheet reporting purposes. Since the Group's functional currency is the US dollar, it is 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. The net equity investments in non-US dollar-denominated businesses is 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, the Group manages its operations in the most cost-effective way possible within the global network.

Other than this, the Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2017, if the major foreign currencies, such as Euro and Pound Sterling, to which the Group had exposure had strengthened/weakened by 10% (2016: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 1.1% (2016 (restated): 1.8%) and 2.8% (2016 (restated): 2.8%) 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 2017 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 2017, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$5,333,000 (2016: US$10,697,000 assets), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments liabilities.

(iii) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets, 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 2017, 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$1,076,000 (2016: US$1,401,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

36 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. The Group's principal trading business carries a higher credit risk profile given that the Group is acting as a supplier and therefore takes full counterparty risk for the customers in terms of accounts receivable and inventory.

In addition, as the Group provides working capital solutions to the suppliers via LF Credit by selectively settling accounts payable earlier at a discount, it also assumes direct counterparty risk for the customers for such receivables. With the increased insolvency risk among global brands and retail customers, the Group has deployed a global credit risk management framework with a tightened risk profile, and applied prudent policies to manage the credit risk with such receivables that include, but are not limited to, the measures set out below:

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

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

(iii) It has established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors; and

(iv) It has put in place rigid internal policies that govern provisions 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 of the Group, 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$11,765,000 (2016: US$56,599,000) and other receivables of US$3,315,000 (2016: US$17,452,000), 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.

(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 and these amounts will not reconcile to the amounts disclosed on the consolidated balance sheet and in Note 27 for long-term liabilities.

36 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
At 31 December 2017				
Purchase consideration payable for acquisitions	**42,166**	**14,900**	**5,531**	**–**
Long-term bank loan	**–**	**–**	**1,558**	**–**
Long-term notes – unsecured	**39,375**	**56,574**	**782,837**	**24,612**
Trade and bills payable	**1,733,661**	**–**	**–**	**–**
Accrued charges and sundry payables	**468,089**	**–**	**–**	**–**
Financial guarantee contract	**750**	**–**	**–**	**–**
Due to related companies	**124**	**–**	**–**	**–**
Bank advances for discounted bills	**1,724**	**–**	**–**	**–**
Short-term bank loans	**22,970**	**–**	**–**	**–**
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	553,292	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	2,093	–	–	–
Bank advances for discounted bills	22,773	–	–	–
Short-term bank loans	29,180	–	–	–
At 1 January 2016				
Purchase consideration payable for acquisitions	87,433	70,271	94,538	–
Long-term bank loans	–	100,000	–	–
Long-term notes – unsecured	66,875	553,125	848,438	–
Trade and bills payable	2,464,785	–	–	–
Accrued charges and sundry payables	635,579	–	–	–
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$248,798,000 (31 December 2016 (restated): US$299,688,000 and 1 January 2016 (restated): US$212,734,000) and undiscounted contractual cash outflows of US$254,175,000 (31 December 2016 (restated): US$288,570,000 and 1 January 2016 (restated): US$208,742,000).

37 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 loan (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 2017 and 2016 were as follows:

	2017 US$'000	2016 US$'000 (Restated)
Long-term bank loan (Note 23)	**1,558**	–
Short-term bank loans (Note 23)	**22,970**	29,180
Long-term notes (Note 27)	**752,432**	1,253,277
	776,960	1,282,457
Less: Cash and cash equivalents (Note 21)	**(348,940)**	(985,039)
Net debt	**428,020**	297,418
Total equity	**2,913,695**	3,458,984
Total capital	**3,341,715**	3,756,402
Gearing ratio	**13%**	8%

38 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).

38 Fair Value Estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	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	**–**	**–**	**4,338**	**4,338**
Total Assets	**–**	**–**	**4,338**	**4,338**
Liabilities				
Derivative financial instrument used for hedging (Note 19)	**–**	**5,355**	**–**	**5,355**
Purchase consideration payable for acquisitions	**–**	**–**	**61,583**	**61,583**
Total Liabilities	**–**	**5,355**	**61,583**	**66,938**

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
Liabilities				
Purchase consideration payable for acquisitions	–	–	161,536	161,536
Total Liabilities	–	–	161,536	161,536

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.

38 Fair Value Estimation (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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%.

The following table presents the changes in level 3 instruments for the year ended 31 December 2017 and 2016.

	2017		2016	
	Purchase Consideration Payable for Acquisitions	**Others**	Purchase Consideration Payable for Acquisitions	Others
	US$'000	**US$'000**	US$'000	US$'000
Opening balance	**161,536**	**4,164**	242,502	3,854
Fair value gains	**–**	**174**	–	310
Additions	**–**	**–**	6,747	–
Settlement	**(67,811)**	**–**	(89,058)	–
Remeasurement of acquisitions payable	**(31,492)**	**–**	–	–
Others	**(650)**	**–**	1,345	–
Closing balance	**61,583**	**4,338**	161,536	4,164
Total gain for the year included in profit or loss	**31,492**	**–**	–	–

39 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	2017 US$'000	2016 US$'000
		As at 31 December	
Non-current Assets			
Interests in subsidiaries		**1,126,780**	1,126,780
Current Assets			
Due from subsidiaries		**4,243,288**	5,147,051
Other receivables, prepayments and deposits		**271**	140
Cash and bank balances		**590**	293
		4,244,149	5,147,484
Current Liabilities			
Accrued charges and sundry payables		**6,088**	10,093
Current portion of long-term notes		**–**	499,819
		6,088	509,912
Net Current Assets		**4,238,061**	4,637,572
Total Assets Less Current Liabilities		**5,364,841**	5,764,352
Financed by:			
Share capital		**13,574**	13,487
Reserves	(a)	**3,440,148**	3,838,719
Shareholders' funds		**3,453,722**	3,852,206
Holders of perpetual capital securities		**1,158,687**	1,158,687
Total Equity		**4,612,409**	5,010,893
Non-current Liabilities			
Long-term notes		**752,432**	753,459
		5,364,841	5,764,352

William Fung Kwok Lun
Director

Spencer Theodore Fung
Director

39 Balance Sheet and Reserve Movement of the Company (continued)

(a) Reserve Movement of the Company

	Share Premium US$'000	Treasury Shares US$'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 2017	**714,536**	**(11,653)**	**974,189**	**65,749**	**2,095,898**	**3,838,719**
Loss for the year	**–**	**–**	**–**	**–**	**(163,313)**	**(163,313)**
Purchase of shares for Share Award Scheme	**–**	**(1,706)**	**–**	**–**	**–**	**(1,706)**
Issuance of shares for Share Award Scheme	**–**	**(87)**	**–**	**–**	**–**	**(87)**
Employee Share Option and Share Award Scheme:						
– value of employee services	**–**	**–**	**–**	**16,735**	**–**	**16,735**
– vesting of shares for Share Award Scheme	**13,991**	**2,450**	**–**	**(16,441)**	**–**	**–**
2016 final dividend paid	**–**	**–**	**–**	**–**	**(130,136)**	**(130,136)**
2017 interim dividend paid	**–**	**–**	**–**	**–**	**(120,064)**	**(120,064)**
Balance at 31 December 2017	**728,527**	**(10,996)**	**974,189**	**66,043**	**1,682,385**	**3,440,148**
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

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) 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.

40 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 2017:

	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	1,453	-	16	-	-	-	-	2,126
Spencer Theodore Fung	39	653	1,958	-	179	-	2	-	-	2,831
Marc Robert Compagnon	39	603	1,736	34	152	-	2	-	-	2,566
Non-executive Directors										
Victor Fung Kwok King	58	-	-	-	-	-	-	-	-	58
Paul Edward Selway-Swift (Note (iv))	24	-	-	-	-	-	-	-	-	24
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71
Martin Tang Yue Nien	71	-	-	-	-	-	-	-	-	71
Margaret Leung Ko May Yee	69	-	-	-	-	-	-	-	-	69
Cheung Chih Tin (Note (v))	26	-	-	-	-	-	-	-	-	26

NOTES:

(i) The amounts are accrued discretionary bonuses for 2017.

(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 with effect from 1 June 2017.

(v) Appointed as Independent Non-executive Director with effect from 14 July 2017.

40 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 2016:

	Emoluments Paid or Receivable in respect of a Person's Services as a Director, whether of the Company or its Subsidiary Undertaking:								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	
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	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.

40 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 (2016: Nil) was issued to any Directors of the Company under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2017, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
12,000,000 (2016: 14,000,000)	HK$12.12[1]	Exercisable in six equal tranches during the period from 1/5/2016 to 30/4/2023 with each tranche having an exercisable period of two years
16,023,000 (2016: 16,023,000)	HK$7.49	Exercisable in two equal tranches during the period from 1/1/2017 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 29 December 2017 was HK$4.29.

(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 (2016: 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 (2016: 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 (2016: 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.

41 Events after Balance Sheet Date

The strategic divestment of the three Product Verticals was approved by the Independent Shareholders on 31 January 2018. The financial results for the three Product Verticals were presented as loss from Discontinued Operations on net basis. Comparatives for the year ended 31 December 2016 have been restated accordingly.

42 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 22 March 2018.

43 Principal Subsidiaries, Associated Companies and Joint Venture

Note		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
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
(1)	B.G.S. Limited	Thailand	Ordinary Baht 288,000 Preference Baht 712,000	100	Provision of laboratory services
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	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)	Cobalt Fashion Holding Limited	British Virgin Islands	Ordinary US$100	62	Investment holding
	Cobalt Fashion (Hong Kong) Limited (formerly known as LF Fashion (Hong Kong) Limited)	Hong Kong	Ordinary HK$1	62	Export trading services

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	**Principal Subsidiaries**				
(1)	Cobalt Fashion (Shenzhen) Limited	The People's Republic of China	RMB2,000,000	62	Export trading services
	Cobalt Fashion Management Limited	Hong Kong	Ordinary HK$1	62	Investment holding
(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
(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 Ordinary "B" HK$200,000	60	Export trading
(1)	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 exporting 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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(1)	DSG (US) Inc.	U.S.A.	Common stock US$1	100	Sourcing service
	Estuary Logistics Group Limited	England	Ordinary "A" GBP95 Ordinary "B" (Non-voting) GBP5	100	Investment holding
	Estuary Logistics Limited	England	Ordinary "A" GBP200 Ordinary "B" (Non-voting) GBP100	100	Provision of logistics services
	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	62	Export trading
(1)	Fireworks Holding Limited	British Virgin Islands	Ordinary US$1	100	Holding company
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	Golden Gate CAV, Ltd	Cayman Islands	Ordinary US$250	100	Investment holding
(1)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
(1)	Golden Gate Holding Limited	British Virgin Islands	Ordinary US$1	100	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	62	Export trading
(1)	GSCM LLC	U.S.A.	Capital contribution US$1	62	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$949,166	100	Investment holding
	Imagine POS Limited	Hong Kong	Ordinary "A" HK$2,000,000 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 Class "B" non-voting HK$13,890	100	Export trading
	Jackel International (Asia) Limited	Hong Kong	Ordinary "A" HK$346,650 Ordinary "B" HK$86,850	100	Investment holding

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(1)	Jackel, Inc.	U.S.A.	Class "A" voting common stock US$1 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 Americas Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	LF Asia Direct Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Asia Direct Management Limited	Hong Kong	Ordinary HK$1	100	Investment holding
(1)	LF Beauty (Germany) Gmbh	Germany	EUR25,000	100	Investment holding
(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	France	Ordinary EUR48,000	100	Export trading
(1)	LF Beauty Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(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 Management Limited	Hong Kong	Ordinary HK$1	100	Investment holding
(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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(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
(1)	LF Europe Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
	LF Europe Trading Limited	England	Ordinary GBP100	100	Service company
	LF Fashion Pte. Ltd.	Singapore	Ordinary S$10,000	62	Export trading
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Provision of management support services
(1)	LF Furniture Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	LF Furniture Management Limited	Hong Kong	Ordinary HK$1	100	Investment holding
(1)	LF Furniture Holding (Europe) B.V.	The Netherlands	EUR1	100	Investment holding
(1)	LF Furniture Holding Inc.	U.S.A.	US$1	100	Investment holding
	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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(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
(1)	LF Logistics (India) Private Limited	India	Ordinary Rs15,000,000	100	Logistics, supply chain management and freight forwarding
	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
(1)	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 GBP2	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$692,473,210	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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	**Principal Subsidiaries**				
(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
(1)	LF Pegasus Limited	British Virgin Islands	Ordinary US$100	100	Investment Holding
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
	LF Products (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services
	LF Products (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading
(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
	Licus Gmbh (formerly known as Phil Henson Gmbh)	Germany	EUR50,000	100	Importer
(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
(1)	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 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 KRW 200,000,000	100	Export trading services

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(1)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rs750,000 "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$500,000	100	Export trading
(1)	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
(1)	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT$175,000,000	100	Sourcing and inspection
(1)	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 20,000,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading services and investment holding
(1)	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
(1)	Li & Fung Mexico S.A. de C.V.	Mexico	Common nominative 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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	**Principal Subsidiaries**				
(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$5.96	100	Wholesaling
	Lornamead UK Limited	England	Ordinary GBP100	100	Manufacturing of perfumes and toilet preparations
(1)	Macau CS Textile Limited	Macau	MOP$1,000,000	62	Provision of technical & advisory service on knitwear production
(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
(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 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 services
(1)	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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	**Principal Subsidiaries**				
(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
	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
	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	62	Wholesaling
(1)	Ratners Enterprises Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
(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 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

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(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
	South Ocean Knitters Limited	Hong Kong	Ordinary HK$94,678,000	62	Trading of sweater
(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
	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
	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
(1)	Zhuhai Fong Ying Textiles Trading Co. Ltd.	The People's Republic of China	HK$10,000,000	62	Trading of sweater

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.

The above table lists out the principal subsidiaries of the Company as at 31 December 2017 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

43 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		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$3,198,308	30	Fireworks wholesaling
#	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$11,838,364	30	Wholesaling
#	Winco Fireworks Mississippi, LLC	U.S.A.	Capital contribution US$331,494	30	Wholesaling
#	Winco of Tennessee, LLC	U.S.A.	Capital contribution US$224,302	30	Fireworks wholesaling and retailing
Note	**Joint Venture**				
*	Red Sun Company Limited	The People's Republic of China	RMB48,000,000	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 2017 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

	2017 US$'000 (Note 1)	2016 US$'000 (Note 1& 2) (Restated)	2015 US$'000 (Note 2) (Restated)	2014 US$'000 (Note 3)	2013 US$'000 (Note 3) (Restated)	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Turnover	**13,534,209**	14,751,222	18,627,057	19,288,499	19,025,512	20,221,806	20,030,271	15,912,201	13,394,741	14,195,143
Core Operating Profit	**355,852**	318,401	509,391	604,143	737,094	511,173	882,056	725,138	511,552	395,392
Operating Profit	**330,072**	300,398	591,952	723,625	811,726	790,703	879,937	679,318	497,373	390,310
Interest income	**12,261**	15,713	9,761	6,984	9,177	20,385	19,490	13,567	11,636	14,455
Interest expenses	**(69,761)**	(90,448)	(99,541)	(105,179)	(107,575)	(135,109)	(128,594)	(98,443)	(47,706)	(61,561)
Share of profits less losses of associated companies and joint venture	**1,898**	1,748	1,570	1,373	442	638	1,231	1,850	998	794
Profit before taxation	**274,470**	227,411	503,742	626,803	713,770	676,617	772,064	596,292	462,301	343,998
Taxation	**(40,830)**	(32,288)	(57,890)	(59,035)	(72,011)	(54,053)	(90,660)	(47,525)	(30,798)	(33,269)
Profit/(loss) for the year										
Continuing Operations	**233,640**	195,123		567,768	641,759					
Discontinued Operations	**(543,045)**	61,068		(98,122)	113,528					
Net (loss)/profit for the year	**(309,405)**	256,191	445,852	469,646	755,287	622,564	681,404	548,767	431,503	310,729
Attributable To:										
Shareholders of the Company	**(374,573)**	221,077	418,013	441,276	725,337	617,416	681,229	548,491	431,937	310,505
Holders of perpetual capital securities	**64,125**	35,687	30,000	30,000	30,000	4,415	–	–	–	–
Non-controlling interests	**1,043**	(573)	(2,161)	(1,630)	(50)	733	175	276	(434)	224
	(309,405)	256,191	445,852	469,646	755,287	622,564	681,404	548,767	431,503	310,729
Earnings Per Share (HK cents)										
Basic	**15.8**(5)	14.9(5)	39.1	50.3(5)	57.1(5)	58.1	65.8	55.9(4)	45.5(4)	34.6(4)
equivalent to (US cents)	**2.04**(5)	1.92(5)	5.04	6.46(5)	7.32(5)	7.45	8.43	7.17(4)	5.83(4)	4.44(4)
Dividend Per Share (HK cents)	**13.0**	23.0	28.0	34.0	41.5(6)	31.0	53.0	45.0	37.5	28.5
equivalent to (US cents)	**1.68**	2.96	3.61	4.36	5.32(6)	3.97	6.79	5.77	4.81	3.65
Special Dividend Per Share (HK cents)	**47.6**	–	–	7.0	–	–	–	–	–	–
equivalent to (US cents)	**6.14**	–	–	0.90	–	–	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2017 US$'000 (Note 1)	2016 US$'000 (Note 1& 2) (Restated)	2015 US$'000 (Note 2) (Restated)	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Intangible assets	**2,347,011**	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
Property, plant and equipment	**208,221**	221,550	241,626	244,907	439,599	418,624	325,432	309,186	160,988	164,495
Other non-current assets	**62,988**	59,933	78,923	58,160	119,558	160,930	120,195	127,456	115,133	23,023
Current assets	**3,899,783**	3,526,322	3,356,881	3,824,872	4,297,740	4,379,969	3,951,571	4,177,788	2,757,963	2,752,051
Current liabilities	**2,784,567**	3,314,537	3,373,631	3,701,518	4,082,124	3,873,938	3,664,820	3,317,362	2,227,923	2,288,234
Net current assets/(liabilities)	**1,115,216**	211,785	(16,750)	123,354	215,616	506,031	286,751	860,426	530,040	463,817
	3,733,436	4,390,241	4,570,662	4,775,504	8,383,329	8,143,991	7,258,377	6,179,234	3,139,818	2,523,403
Financed by:										
Share capital	**13,574**	13,487	13,487	13,398	13,398	13,396	12,987	12,899	12,103	11,648
Holders of perpetual capital securities	**1,158,687**	1,158,687	503,000	503,000	503,000	504,415	–	–	–	–
Reserves	**1,741,434**	2,286,810	2,470,423	2,593,680	5,033,287	4,619,509	3,918,012	3,611,572	2,252,878	1,696,432
Shareholders' funds	**2,913,695**	3,458,984	2,986,910	3,110,078	5,549,685	5,137,320	3,930,999	3,624,471	2,264,981	1,708,080
Other non-current liabilities	**819,741**	931,257	1,583,752	1,665,426	2,833,644	3,006,671	3,327,378	2,554,763	874,837	815,323
	3,733,436	4,390,241	4,570,662	4,775,504	8,383,329	8,143,991	7,258,377	6,179,234	3,139,818	2,523,403

NOTES:

(1) The strategic divestment of the three Product Verticals was approved by the Independent Shareholders on 31 January 2018. The financial results for the three Product Verticals were presented as loss from Discontinued Operations on net basis. Comparatives for the year ended 31 December 2016 have been restated accordingly. The financial results prior to 2016 have not been restated.

(2) The Group elected to have early adoption of HKFRS 15 in 2017. Comparatives for year ended 31 December 2015 and 2016 have been restated accordingly. The financial results prior to 2015 have not been restated.

(3) 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.

(4) Adjusted for the effect of Share Subdivision in May 2011.

(5) Based on earnings of Continuing Operations of the Group.

(6) 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.

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
Company, Li & Fung	Li & Fung Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
Continuing Operations	Service segment and Onshore Wholesale business
Director(s)	a director(s) of the Company
Discontinued Operations	the three Product Verticals subject to the strategic divestment
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 PRC
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
Independent Shareholders	Shareholders, other than FH (1937), Victor Fung Kwok King, William Fung Kwok Lun, Spencer Theodore Fung, and Terence Fung Yue Ming and their respective associates
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
PRC	the People's Republic of China
Product Verticals	the Group's furniture, beauty and sweaters product verticals
Report	the annual report of the Company for the year ended 31 December 2017
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	ordinary share(s) of HK$0.0125 each in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Award Scheme	the share award scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015
Share Option(s)	the outstanding option(s) granted under the 2003 Option Scheme and/or 2014 Option Scheme
Stock Exchange	The Stock Exchange of Hong Kong Limited
Trinity	Trinity Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
US$	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
Joseph C. Phi

Non-executive Directors

Victor Fung Kwok King
Allan Wong Chi Yun*
Margaret Leung Ko May Yee*
Martin Tang Yue Nien*
Chih Tin Cheung*
John G. Rice*

* 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.

Standard Chartered Bank (Hong Kong) Limited

JPMorgan Chase Bank, N.A.

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