CREATING THE SUPPLY CHAIN OF THE FUTURE

Annual Report 2018

LI & FUNG LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 494


-0.375 +0.375

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LF PLATFORM


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)

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.

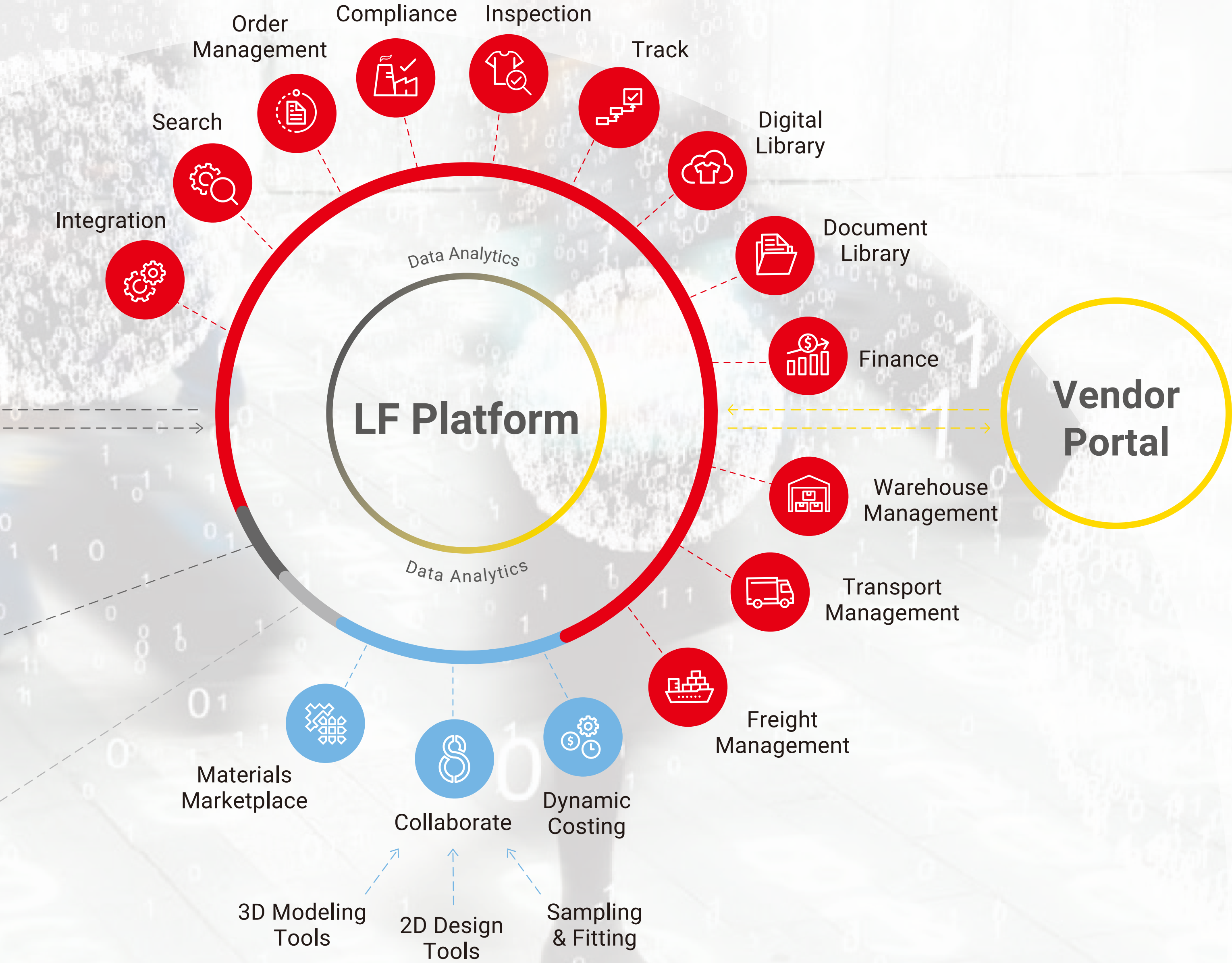
Data Provider
(Financial Service Data, Government Import Data, Weather and Traffic Data, Industry Product Data)

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

Dear Shareholders,

As we enter the final year of this transformative Three-Year Plan (2017–2019), I would like to examine the rapid changes in our environment as well as the opportunities and challenges for Li & Fung. While we finished 2017 ahead of our original expectations, we faced more challenges in 2018 than initially anticipated given continued retail destocking, customer turnover, bankruptcies and geopolitical uncertainties.

Evermore complex sourcing landscape

The biggest uncertainty for our customers stems from the US-China trade war. At the time of this letter, negotiators are still working together and an interim solution seems to be on the horizon. While reports on the progress of negotiations are encouraging, we need to keep in mind that difficult issues remain on how to monitor any agreed trade agreements. In the long term, fundamental differences over an array of interlocking issues, such as the sustainability of a bilateral trade balance, market access in critical industries, intellectual property rights, national security and more, bring into question the permanence of any agreements that may be reached in the short term. Globally, the trend of bilateral trade agreements and regional trade pacts has superseded the multilateral framework of the World Trade Organization. This fragmentation and continued geopolitical undercurrents mean a protracted process of realignment during which cross-border global supply chains will need to be increasingly fluid and complex.

As a company involved in the global trade business for more than a century, we understand that the sourcing landscape moves with the ebbs and flows of international relations. For that reason, we have always purposely pursued a diversified sourcing strategy. This vast network of suppliers in more than 50 production countries, with deep relationships built over decades, is a key strength. This network provided much-needed flexibility and assurance to our customers during the most unsettling months of 2018 and will continue to be a powerful source of support that our customers can count on in the future.

Developments in major markets

Developments in the political realm had different economic impacts in our key markets. In the US, tax reform initially helped consumer sentiment and subsequently retail sales. The nominal GDP growth rate is at its highest in more than a decade. However, this momentum tapered off and signs of cooling emerged toward the end of 2018, causing the Fed to strike a more dovish tone about future rate hikes. Despite strong consumer demand, the pressure of keeping up with technology and consumer demands is pressuring brands and retailers that are slow in transforming, overleveraged, or both, as the number of store closures and bankruptcies indicates. We will continue to carefully monitor our customer base and strike the right balance between revenue and risk.

In Europe, more than two years since the UK invoked Article 50 to leave the EU, there is little clarity on how events will unfold in 2019. The financial industry has already moved some jobs from London to other European financial centers ahead of the original deadline and general uncertainty is dampening retail sentiment in the UK. Populist discontent in several large markets has been dragging Europe's economic outlook. While Brexit is just one facet of a bigger debate over immigration, that is polarizing politics across Europe, it continues to frustrate economic growth and remains a key concern for our European business.

While economic growth in Asia remained largely stable in 2018, for most economies it moderated from 2017. China's 6.6% GDP growth of 2018 and the 6 to 6.5% growth target for the coming years, as announced at the recent National People's Congress, is lower than in past years, but nevertheless offers a stable outlook in the World's second largest and increasingly important economy. China has signaled a slowing down of its recent efforts to deleverage its private sector and is taking measures to reflate its economy. We are confident that Asia's strong consumption growth, in China, but increasingly in Southeast Asia and India, will have far-reaching and positive implications for retail, and our business. Our initiatives to tap into this "ABC market" (Asian-Based Consumer) is led by our Logistics in-country business which is largely China and Asia based.

Twin engines for long-term growth

As we develop the Supply Chain of the Future, our Supply Chain Solutions business has two strong engines for growth. One is leveraging the strength of our traditional, core sourcing business. The other is the rapid adoption of technology to lead the industry in the digitalization of the global supply chain.

To take full advantage of our large geographical sourcing network in navigating the increasingly complex global trade and geopolitical landscape, we have restructured our organization to increase our focus on customer service and the creation of a country-based sourcing structure that allows us to leverage our buying power and economies of scale for the benefit of our customers. A new Chief Operating Officer is driving this fundamental change.

The exponential advance in retail technology has revolutionized the way our customers do business. The brands and retailers who are successful in adopting these innovations are capturing greater wallet share. Those behind the technology curve risk losing market share and face financial challenges. While most new technologies have addressed the consumer-facing end of retail, those looking at the supply-end are underdeveloped and retailers still face challenges in seamlessly integrating the front-end and back-end. We believe we are at the forefront of unlocking the value of what a completely digitalized supply chain can bring. With our speed model and various digital applications, Li & Fung is a key partner with our customers in embracing technology and capturing new opportunities. We have hired a new Chief Digital Officer to further develop this critical area.

When our Supply Chain Solutions business returns to growth matched with the stable performance of our Onshore Wholesale business, and the high growth of Logistics, we will realize and release the potential for our customers of a truly end-to-end supply chain.

ESG and the Supply Chain of the Future

Our goal has always been to go beyond the economics of our business to supply consumer products of value to the world, and at the same time, provide employment opportunities in many underdeveloped markets, improve working and

environmental conditions in factories and build sustainable communities along our supply chain, thereby meeting the evolving expectations of our stakeholders.

We aim to develop and operate responsible, sustainable, agile supply chains that meet the demands of a dynamic global retail sector and address our common, global sustainability challenges. Our longstanding commitment to improving our environmental, social and governance (ESG) performance drives our Sustainability Strategy and initiatives, from the Board level to our operations around the world. We will continue to enhance our integration of responsible ESG practices along the value chain.

To the finish line

Today, Li & Fung is faster, more focused, efficient and digital than we were two years ago. As we near the end of our Three-Year Plan, I want to thank our colleagues for their tireless efforts in this transformation. We have made great strides and are on track to build the Supply Chain of the Future. I want to thank our customers and suppliers for their continued support. Your partnership in exploring uncharted technological territories is appreciated. Finally, I would like to reiterate my sincere gratitude to our shareholders for your faith in our Company. We strongly believe the market will ultimately reward our long-term thinking and our strategy will generate stronger results.

Yours sincerely,

William Fung Kwok Lun
Group Chairman

A Letter from Our CEO

Dear Shareholders,

2018 was a demanding year due to the worsening environment and our internal restructuring, but we stayed very focused on executing our Three-Year Plan goal of creating the Supply Chain of the Future and the restructuring that we announced in August 2018, which was the biggest reorganization in the history of the Company. With the right strategy, the right structure, and now the right people in place, we have laid the foundation for the future. Under the new structure, we can now truly leverage the scale and buying power of Li & Fung. Also, our digital supply chain is starting to take shape, and we have become the market leader in end-to-end 3D virtual design and starting to generate revenue.

2018 was a tough year for the retail industry. While overall retail sales grew by mid-single digit, many traditional players, who are our customers, are facing tremendous headwind. In the US, we saw an unprecedented number of bankruptcies and store closures and the trend seems to be accelerating. In Europe, the UK was particularly hit with a similar trend. Permanent, multi-year destocking also continued to affect our topline. The Asia markets were also hit with a slowdown in China consumption but we managed to buck the trend in logistics and grew by double digit. Global trade experienced one of the most unstable years in recent memory with changes in geopolitics and the threat of a trade war between the world's two largest economies, the US and China. A proliferation of bilateral trade deals seemed to unravel what was achieved by the World Trade Organization back in 2005, and there was the threat of more departures from the EU. As a result, the business environment in 2018 was highly uncertain which forced many companies to withhold their capital expenditures and other investments. The 2019 outlook for the environment remains highly unstable and threatens to inflict more casualties in the retail industry worldwide, unless the geopolitical environment improves.

In 2018, our core operating profit (COP) was down 20% to US$285 million due to challenges in the Supply Chain Solutions (SCS) business. In August 2018, we outlined our three challenges: changing customer demands, shifting global productions, and the need to speed up our end-to-end digital platforms. I am pleased that we have now executed the proposed new structure with a new management team. On the other hand, our Logistics and Onshore Wholesale businesses actually performed relatively well. Our Logistics business continues its double-digit organic growth that is fueled by multiple growth drivers, especially in eCommerce logistics. Moreover, our capital structure remains conservative with a gearing ratio of 18%, an increased cash balance of US$612 million, a decrease of net debt to US$413 million, and unused credit lines of US$1.6 billion.

To address the challenges in the SCS business, we have taken action to restructure and also brought in a new management team with a proven track record. The new structure have bridged the traditional silos and created a much more focused organization by having management teams dedicated to account management to better serve our customers, business development to accelerate new business conversion, a sourcing and production platform to truly leverage the scale of Li & Fung, and a new digital function to speed up the development of our digital platform. Joseph Phi, a long-time Li & Fung veteran with a decade-long record of double-digit organic growth, will lead the account management and business development teams as the Group President. Wilson Zhu, who was a customer of Li & Fung for 15 years with a strong record of execution, will lead the sourcing and production platform as the Chief Operating Officer. Darren Palfrey, with 20 years of retail and logistics background and a co-founder of a supply chain software startup, will now lead the newly-created digital function as the Chief Digital Officer. Customers, suppliers and our colleagues are already responding extremely positively to this new structure. Our successful case study of the production platform in India demonstrated a 9% CAGR of positive jaws over the past few years through improving operating excellence, thus driving new businesses, with higher productivity and lower costs at the same time and this will be replicated to the rest of our network. The newly-appointed leaders will continue the next layer of the restructuring for the remaining months of 2019.

On the digital front, we have been focusing on 3D virtual design in the past 16 months. I am happy to report that we have now created a 3D team that has the largest scale in the industry. Furthermore, our customers consistently rate our digital output as the highest quality and we are now growing faster than all known competitors in the industry. The results have been a savings of an average of 30% off the lead time and a cost reduction of up to 1.2% of retail sales for our customers. We are experimenting with a few different revenue models and starting to monetize this service. We are excited about the growing possibilities of 3D design and the applications all the way to customers' e-commerce process. The potential market is constantly growing in size and this represents one of the first true digital disruption in the traditional supply chain.

Our Logistics business continues to outperform the industry with 15% organic growth in COP. There are now multiple growth drivers and they are firing on all cylinders. Our recent geographic expansion to Japan, Korea and India is ahead of plan and profitable. Our businesses in Vietnam and Indonesia had a good start and are growing. Our investment in e-commerce logistics has also allowed us to increase our e-Logistics business by high-double digit over last year with a very high operating margin. In addition, we have entered the electronics vertical and it is also generating positive growth momentum. Our global freight business, however, is facing some headwind this year due to the slowdown in global trade and the decrease in freight rates. In August, we announced our intention of listing LF Logistics and we are now underway to complete this during the course of 2019, subject to Hong Kong Stock Exchange approval, market conditions and other factors.

Looking forward, the 2019 macro outlook remains highly unstable and challenging. Despite that, the restructuring of our SCS business and new management team will start to stabilize the business and allow us to focus on our strategic customers. Our global sourcing and production platform will allow us to start truly leveraging the scale of Li & Fung and help our customers move production away from China into our network of 50+ countries. Our Logistics business will continue its growth momentum and the Onshore Wholesale business will continue to recover. With the right strategy, the right structure and the right people, we have now laid a solid foundation for the future. 2019 will be the year of acceleration for Li & Fung and we are excited about the prospects going forward. I want to take this opportunity to thank all our colleagues, partners and the investment community for your continued support and faith in Li & Fung.

Yours sincerely,

Spencer Fung
Group CEO

Summary of the Year

2018 GROUP OVERVIEW (CONTINUING OPERATIONS)

Turnover

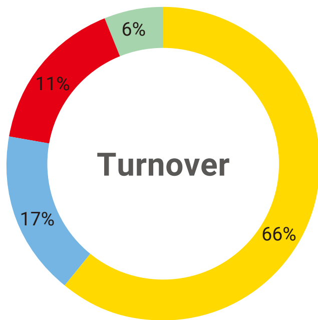
US$12,701M

Total margin

US$1,342M

Core operating profit

US$285M



Group geographical market turnover

US$12,701M

USA
Europe
Asia
Rest of World

Earnings per share (basic)

11.7 HK cents

1.50 US cents

Dividends per share (total)

7 HK cents

0.9 US cents

Operating cash flow

US$210M

Cash and bank balances

US$612M

Gearing ratio

18%

OUR SUPPLY CHAIN

Suppliers worldwide

10,000

Top five sourcing countries

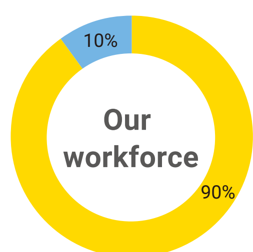
China, Vietnam, India, Bangladesh, Indonesia

OUR PEOPLE

52% Female

48% Male

44% Of our management worldwide is female



Services
Products

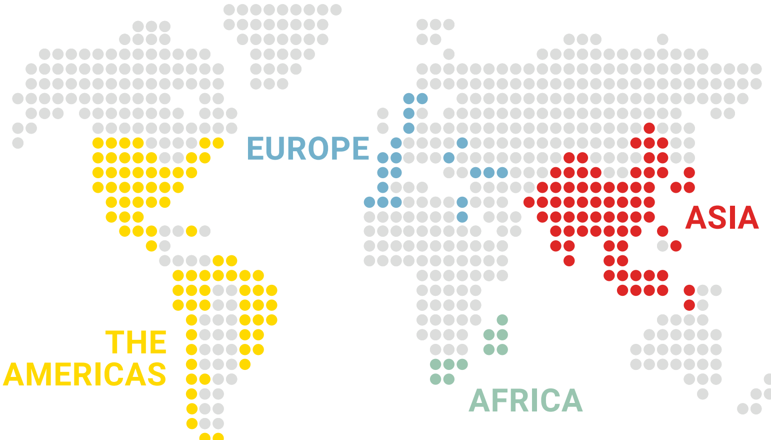
Production countries

50+

We operate an extensive global supply chain network in over 230 offices and 280 distribution centers around the world, working with our vendor base of 10,000 suppliers to add value to our global brand and retail customers.

Employees worldwide

16,840



OUR COMMUNITIES

357
Activities

31,000+
Volunteer hours

22,000+
Volunteer hours during working hours

9,000+
Volunteer hours during non-working hours

18,500+ times
Our people volunteered

78 locations in **26** countries participated in community initiatives

OUR FOOTPRINT

10%
reduction in print volume in Hong Kong

21%
reduction in greenhouse gas emissions

RECOGNITION

THE GLOBAL COMPACT WE SUPPORT

FTSE4Good

THE ASSET CORPORATE AWARDS 2018 ESG

15 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

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 initiated a fundamental reorganization with a new management team to focus on core customers and operational excellence; Our leadership in 3D virtual design has gained broad industry recognition and is opening doors to opportunities that were previously unavailable.

Results Overview

Minimal Impact from Trade War

The escalation of the US-China trade war in 2018 brought further disruptions to the global supply chain. However, Li & Fung has always pursued a diversified sourcing strategy, which has paid off in times of trade and macroeconomic uncertainties. Our production network spans over 50 countries, providing the best defense possible against fluctuations in trade policy and helping mitigate any negative impacts from tariff increases. In many of these countries, our deep relationships with vendors, business communities, and regulators go back decades, giving us an edge in securing production capacities and accelerating production migration from China. While the current trade war has had minimal on our business, we are working closely with our current and prospective customers to formulate and implement contingency plans to migrate their China-centric procurement networks.

Retail Landscape Rapidly Changing

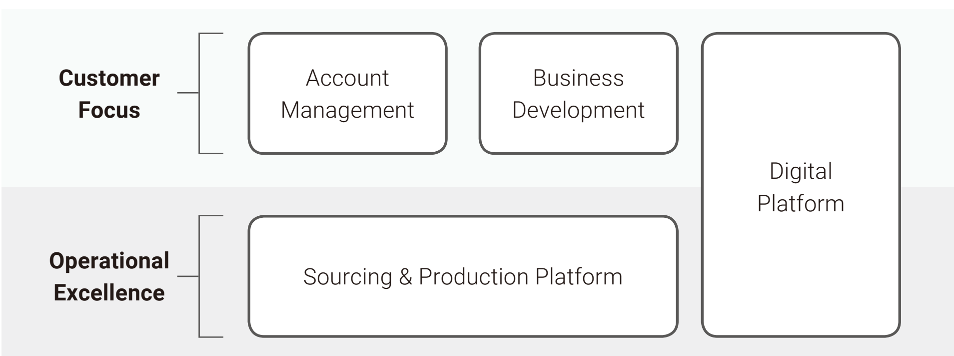
The retail industry around the world continues to evolve at an unprecedented pace. While overall US retail sales have recorded some of their strongest growth in recent years on the back of strong consumer confidence, the number of retail bankruptcies has accelerated, reaching a level similar to that of the 2008 global financial crisis. It has become clear that the old retail operating model is no longer successful in today's retail landscape.

Consumer tastes are changing rapidly and brand loyalty is proving more elusive, causing market share to shift frequently and requiring retailers to be even more sensitive to changes in consumer preferences. The adoption of retail technology such as social media analytics and digital design tools, including the services offered by Li & Fung, is allowing retailers to deliver the right products with greater speed to market by combining front-end consumer interface with back-end production more seamlessly. Such an integrated strategy is necessary for winning consumers' minds and wallets. Overall, 2018 was a challenging year for many customers. Most brands and retailers were pushed to accelerate the speed of their supply chain and reduce inventory levels, which negatively impacted our business, and some faced financial challenges including bankruptcies.

Focused Reorganization

In response to the rapidly changing environment, we initiated significant Company-wide reorganization in 2018 followed by key leadership appointments, marking one of the most profound changes in our recent operating history. Previously, each Li & Fung line manager operated each business in a vertical manner, managing both the customer relationship and production process overseeing all production countries on a global basis. Over time, this created multiple silos, inhibiting communication and operating leverage across the businesses. The vertical structure also burdened our managers with large global teams to manage, which led to slower execution of key initiatives. The reorganization was designed to (1) strengthen customer relationships with laser-focused account management teams, (2) achieve operational excellence in our sourcing and production platform, and (3) accelerate digitalization. Under the new structure, our teams are focused on more specialized areas to improve agility and operational efficiency.

Both account management and business development are customer-facing functions. Account management teams are organized into individual operating groups according to customer segments and product categories. They are solely focused on serving and growing market share with existing brands and retail customers. The business development team, led by a new executive



with extensive sourcing experience, will be responsible for building and converting our new customer pipeline. Both Account Management and Business Development report to our new Group President, who was internally promoted in January 2019. The new Group President brings a solid track record in organically growing the logistics business by double digits over the past several years. He will drive change and execution as well as foster more cross-selling between the supply chain solutions and logistics businesses.

Our sourcing and production platform has been reorganized from an operating group centric model into a regional and country centric model. It is led by our new Chief Operating Officer (COO), who joined in October 2018. The COO is focused on breaking down internal silos and building a sourcing and production platform with operational excellence in each country that leverages our global scale to improve the consistency of our service delivery. Supporting the COO are empowered regional leaders based in individual countries and production hubs. Under the new structure, these regional leaders will manage all the execution of sourcing and production activities with vendors to enable faster, more accurate decisions on the ground. Stronger production-level leadership will also allow our account management teams to truly leverage all our resources within each production country and obtain better sourcing options with faster response times for our customers.

3D virtual design has gained significant traction with customers.

Our goal for the current three-year plan is to build a fully-integrated digital platform that connects suppliers, customers, and other partners with end-to-end visibility. This digital platform will be the nucleus of our future services offering. We have earmarked US$150 million in the current Three-Year Plan to invest in digitalization and continued to make good progress. We have established a leading position against competitors, particularly in 3D design and sampling. In 2018 we accelerated our investments in our digital capabilities and organized our various digital applications into a unified platform under a newly appointed Chief Digital Officer (CDO). The CDO joined from a supply chain start-up in January 2019 with a mandate to accelerate our digital build-out. In addition, our digital team will continue to work with our Corporate Development team to build an ecosystem of strategic partners as we create the supply chain of the future. The team has already entered into multiple cooperation arrangements with various technology start-ups and supply chain partners to develop and offer new supply chain services as part of LF digital platform.

Speed and Digitalization

Accelerating speed in the supply chain is central to meeting growing consumer expectations driven by e-commerce. With shorter lead times under a speed model, retailers can sell products that more accurately track consumer trends, resulting in better sell-through rates, fewer mark-downs and improved inventory levels. Throughout 2018, more customers began experimenting with our speed model and as success stories of early adopters spread, interest in our solutions grew. In the short-term, speed in the supply chain exacerbates the destocking trend we have seen in last couple of years and, creates pressure on our business. However, we believe that in the long-run, customers that are more agile will succeed and gain market share, which will positively impact our business.

Another offering that has gained significant traction with customers is 3D design. Product design and development is still a very analog process of paper and ink, and creating samples and shipping them back and forth for approvals and alterations. Digitalization of product design reduces time spent on physical sampling and shortens response time along the supply chain. Our 3D design team, formed in early 2017, has grown significantly as customer interest and demand has increased. Our clear leadership in 3D design has gained broad recognition in the industry and become a key differentiator, creating new customer leads and opportunities.

Apart from the speed model and 3D design, we have developed a rich set of digital applications such as trend engine, materials platform, dynamic costing, and total sourcing portal. Each application has gained traction individually; together, they present a unique value-proposition to our customers and open doors to opportunities that were previously unavailable to us. With the appointment of the Chief Digital Officer, the digital build-out will accelerate and further enhance our service offerings.

Strategic Divestment of Product Verticals

In December 2017, we announced the strategic divestment of the three Product Verticals, furniture, beauty and sweaters for US$1.1 billion to further simplify our business. The transaction was completed in April 2018. Our financial results and management discussion and analysis will mainly focus on our Continuing Operations, which consist of the Supply Chain Solutions, Logistics and Onshore Wholesale businesses. The three Product Verticals are classified as Discontinued Operations and presented separately in the consolidated profit and loss account as a single line item. The 2017 non-cash remeasurement loss is a result of the disposal and 2018 loss includes operating loss of the Discontinued Operations during the stub period in 2018 and final disposal losses, which were triggered primarily by the realization of prior period foreign exchange non-cash translation losses at the time of closing.

Special Dividend and Redemption of US$500 Million Perpetual Capital Securities

The completion of the strategic divestment brought in US$1.1 billion in cash. In May 2018, we returned US$520 million to our shareholders in the form of special dividend. In the same month, we redeemed US$500 million in perpetual capital securities, which further strengthened our capital structure and will also reduce our distribution to perpetual capital securities holders by US$30 million on an annual basis. The remaining perpetual capital securities carry a distribution rate that is fixed for life at 5.25%.

IPO of Logistics Business

The strong growth momentum of the Logistics business ("LF Logistics") continued in 2018. It continues to benefit from the tailwind of the rising middleclass consumption in Asia, growth in e-commerce logistics, and geographic and vertical expansion. To further accelerate the pace of its business growth and development, we have decided to seek a separate listing for our Logistics business on the Hong Kong Stock Exchange. We have engaged professional third parties to advise on the potential spin-off and separate listing of LF Logistics. Post spin-off, we expect to remain the controlling shareholder of LF Logistics and continue to consolidate the results of LF Logistics in our financial statements. Meanwhile, we continue with preparation work and target the listing in 2019 depending on market conditions and other factors. We believe the proposed spin-off will allow us to unlock the value of LF Logistics and further enhance the capital structure and financial flexibility of the Group.

LF Logistics warehouse in Singapore.

Results

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

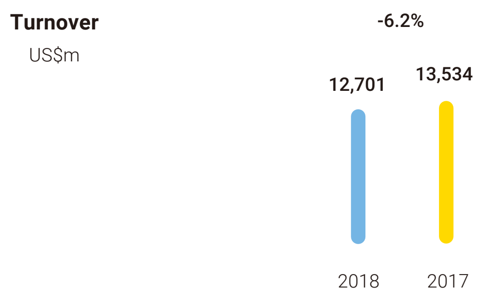
	Group Results[1]		
(US$ million)	**2018**	2017	Change %
Turnover	**12,701**	13,534	(6.2%)
Total Margin	**1,342**	1,386	(3.2%)
As % of Turnover	***10.6%***	*10.2%*	
Operating Costs	**1,057**	1,030	2.6%
As % of Turnover	***8.3%***	*7.6%*	
Core Operating Profit	**285**	356	(20.0%)
As % of Turnover	***2.2%***	*2.6%*	
Gain on Remeasurement of Contingent Consideration Payable	**9**	31	
Profit for the Year			
– Continuing Operations	**171**	234	
– Discontinued Operations	**(140)**	(543)	
– Total	**31**	(309)	
Profit Attributable to Shareholders[2]			
– Continuing Operations	**126**	170	
– Discontinued Operations[1]	**(137)**	(545)	
– Total	**(11)**	(375)	
Adjusted Profit Attributable to Shareholders[3]			
– Continuing Operations	**126**	170	
– Gain on Remeasurement of Contingent Consideration Payable	**(9)**	(31)	
– Adjusted Profit Attributable to Shareholders[3]	**117**	139	(15.9%)

1. Group results with Discontinued Operations separately presented given the strategic divestment of the three Product Verticals in April 2018. The loss attributable to Shareholders of US$137 million includes operating loss of the Discontinued Operations during the stub period in 2018 and final disposal losses, which were triggered primarily by the realization of prior period foreign exchange non-cash translation losses at the time of closing.
2. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests.
3. Profit attributable to shareholders for Continuing Operations excluding gain on remeasurement of contingent consideration payable.

TURNOVER

Group turnover, on a like-for-like basis and excluding the impact of the divestment of the three Product Verticals, decreased by 6.2% to US$12.7 billion. This was mainly due to customers' ongoing destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services.

These developments have presented both opportunities and challenges. While in the short run, our customers' desire to achieve shorter lead times and maintain lower inventory levels with smaller orders has negatively impacted our turnover, it has also provided growth opportunities for our digitalization applications. Customers who have adopted these digitalization applications to increase speed have achieved better sell-through and reduced mark-down rates. This in turn has improved the efficiency of our customers' inventory turns and resulted in lower inventory levels. Despite the short-term pressure on our turnover, our ability to provide a faster, more agile supply chain to shorten the supply chain production cycle is helping us cultivate stickier, longer-lasting customer relationships in the long-run.



Our Supply Chain Solutions, Logistics and Onshore Wholesale business, accounted for 78%, 9% and 13% of Group turnover, respectively.

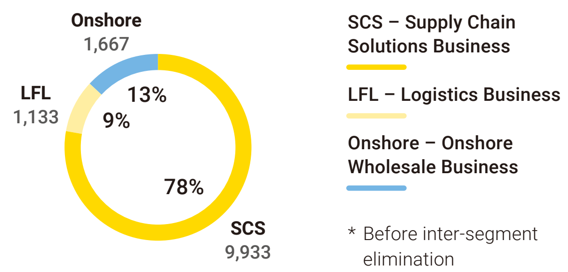
Turnover for the Supply Chain Solutions business decreased by 9.6%, which was primarily due to retail destocking, customer turnover, and the change in business operating model for one of our key customers, which moved from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services.

Turnover for the logistics business increased by 10.2%, which was driven by strong demand for in-country logistics services. The growth of the Logistics business continued to be largely driven by its strong growth momentum in China, e-logistics growth, accelerated growth in ASEAN across all services, and rapid expansion in its newer geographies including Japan, Korea and India. Global freight management was negatively impacted by the global trade slowdown resulting in lower freight rates and lower volume from existing customers.

Turnover for the Onshore Wholesale business in the Americas, Europe and Asia increased by 7.4% due to the expansion of our Asia onshore wholesale business, as well as our global promotional theme business. We continued to experience pressure on our top line from anemic consumer sentiment and an unstable economic environment particularly in the UK.

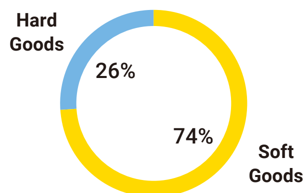
2018 Turnover Breakdown by Segments*

US$m



Excluding the Logistics business, the Group derived 74% and 26% of 2018 turnover from soft goods and hard goods respectively. This remains unchanged from 2017 on a like-for-like basis.

2018 Group Product Mix
(Excluding Logistics Business)

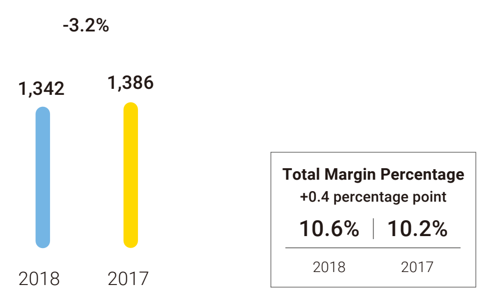


TOTAL MARGIN

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, total margin decreased by 3.2% to US$1,342 million. This was mainly due to lower turnover in the Supply Chain Solutions business and margin pressure in the principal trading businesses, offset by business growth in Logistics. Total margin percentage improved by 0.4 percentage point to 10.6% on a like-for-like basis, which was mainly due to an increased contribution from the higher-margin Logistics business.

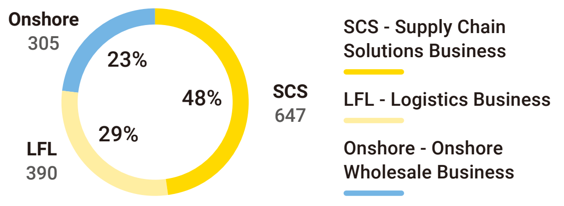
Total Margin

US$m



Our Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 48%, 29% and 23% of the Group's total margin, respectively. Year on year total margin increased by 10.6% in the Logistics business and by 1.5% in the Onshore Wholesale business. This was offset by a reduction in total margin in the Supply Chain Solutions business of 11.8%, which was primarily due to lower turnover.

2018 Total Margin Breakdown by Segments
US$m



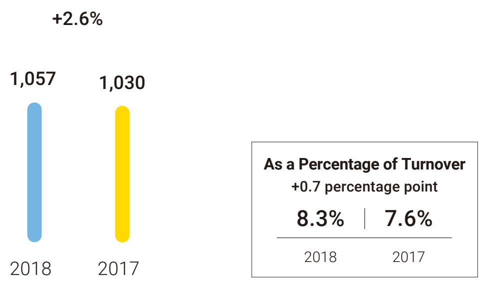
OPERATING COSTS

The Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 47%, 29% and 24% of operating costs, respectively.

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, operating costs increased by 2.6% to US$1,057 million, which was primarily due to investments in the Logistics business and digitalization initiatives and offset by the cost reduction from productivity initiatives.

Operating costs for the Logistics business increased by 9.5% because of its continued business expansion. Excluding the Logistics business, reported combined operating costs of the Supply Chain Solutions and Onshore Wholesale businesses remained flat at US$753 million. Nevertheless, we have reduced operating costs through our productivity initiatives by approximately US$50 million, which represents a 7% year on year reduction for the combined Supply Chain Solutions and Onshore Wholesale businesses. This cost saving was offset primarily by the investment in our digitalization efforts with increased operating expenses in the digital space, an increase in accounts receivable provisions and restructuring costs.

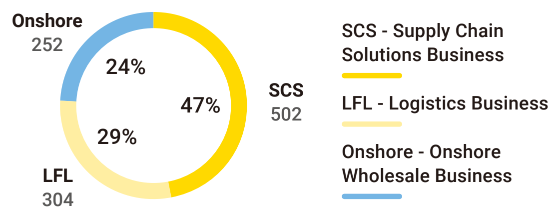
Operating Costs
US$m



Due to the topline and margin pressure, we continued our productivity initiatives with on-going process improvements and automation in our sourcing and production operations. We also performed an in-depth review of our country-level operations and searched for opportunities for organizational and process improvements to drive down costs and improve efficiency. In addition, given the reduced scale of our core business after a series of strategic divestments over the past few years, we have identified excess capacity in certain centralized office support functions. As a result, we have decided to transfer part of these centralized support functions to the Fung Group, which can better leverage this infrastructure to serve Li & Fung and other related group companies on a cost recovery basis. We will continue to rationalize our costs and infrastructure to adjust for the scale and growth opportunities of our businesses.

2018 Operating Costs Breakdown by Segments

US$m

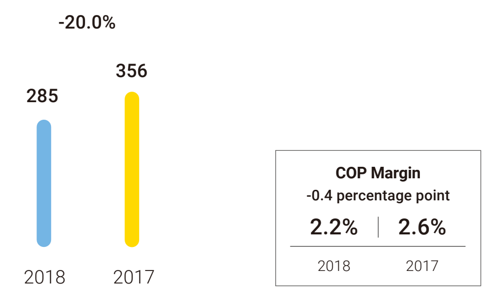


CORE OPERATING PROFIT

On a like-for-like basis and excluding the impact of the divestment of the three Product Verticals on 2017 and 2018 results, Core Operating Profit (COP) decreased by 20.0% to US$285 million. This was largely due to decreases in turnover and total margin in the Supply Chain Solutions business, as well as our continued investment in digitalization, an initiative that is in line with our long-term strategic plan. This investment resulted in an increase in operating cost percentage-to-turnover ratio and a decrease in COP margin by 0.4 percentage point to 2.2%.

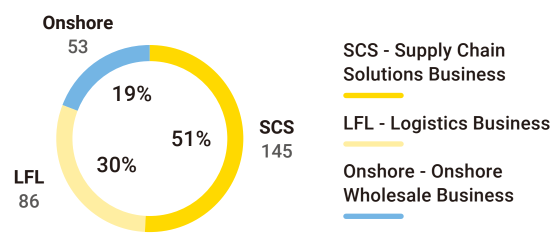
COP

US$m



In 2018, the Supply Chain Solutions, Logistics and Onshore Wholesale businesses accounted for 51%, 30% and 19%, respectively of the COP of the Continuing Operations. While the Supply Chain Solutions and Onshore Wholesale businesses' COP decreased by 36.1% and 0.3% respectively, the Logistics business' COP increased by 14.6%.

2018 COP Breakdown by Segments
US$m

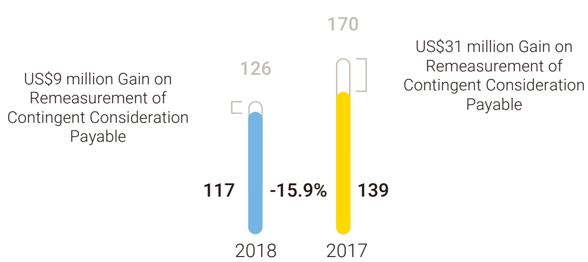


PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Adjusted profit attributable to shareholders for Continuing Operations in 2018 decreased by 15.9% to US$117 million, considering that 2017 was impacted by the US$31 million gain on remeasurement of contingent consideration payable (2018: US$9 million). On a reported basis, profit attributable to shareholders for Continuing Operations decreased by 26.2%.

The Group recorded a loss of US$11 million attributable to shareholders for the year ended 2018 as compared to the loss of US$375 million for the year ended 2017. This was the result of an operating loss for the discontinued business of the Product Verticals of US$23 million, primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million. The losses were triggered primarily by the realization of prior period foreign exchange non-cash translation losses for the discontinued business in the Group equity account at the time of closing in 2018.

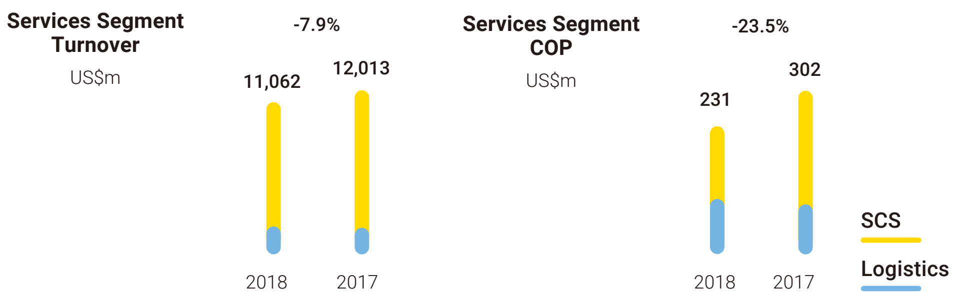
Profit Attributable to Shareholders
(Continuing Operations)
US$m



Services Segment

The Services segment is composed of the 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 the Supply Chain Solutions and Logistics businesses has enhanced business opportunities and further solidified our relationships with customers. In 2018, the Logistics business continued to perform in line with its growth strategy, while the Supply Chain Solutions business experienced a challenging environment due to destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services. In total, the core operating profit of our Services segment decreased by 23.5%.



Services – Supply Chain Solutions

Our Supply Chain Solutions business, which accounted for 78% of turnover, 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 quality 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 companies, hypermarkets, off-price retailers and clubs. Our vendor base is an additional customer base for our services, which can improve factories' operational efficiencies and compliance levels.

Since 2017, we have been investing in a new digital strategy to transform our business, and in 2018, we took significant strides on this journey. We have built four platforms covering raw materials, 3D design, production tracking and vendor platforms. The raw materials online platform connects factories with a proprietary global catalogue of available fabrics from textile mills to our customers. The dedicated digital team for the 3D design platform simplifies the product development process by creating 3D digital designs using multiple digital tools and aggregating the digital assets in the content library for direct use for e-commerce, virtual showrooms and runway displays. The production platform optimizes production with an integrated digital tracking application, which provides a streamlined view from pre-production to production at every stage and alerts merchandisers to defects and issues. The vendor platform is the central point of entry for our vendors in processing orders and transactions, and also gives our vendors access to digital materials, design and production platforms. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics. The LF Digital Platform will serve as the nucleus of our future service offerings enabling us to provide better, faster supply chain services beyond our traditional sourcing services. With the appointment of the newly created Chief Digital Officer position, we expect to accelerate our digital journey and offer an integrated digital offering to help our customers.

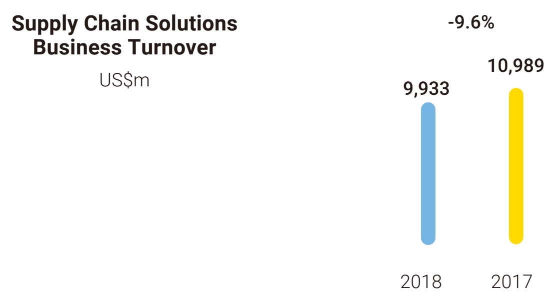
Supply Chain Solutions Business Results

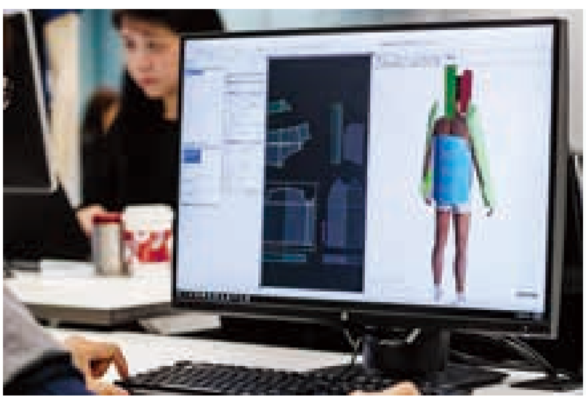
	2018	2017	Change
	US$m	US$m	%
Turnover	**9,933**	10,989	(9.6%)
Total Margin	**647**	733	(11.8%)
As % of Turnover	***6.5%***	*6.7%*	
Operating Costs	**502**	506	(0.9%)
As % of Turnover	***5.0%***	*4.6%*	
Core Operating Profit	**145**	227	(36.1%)
As % of Turnover	***1.5%***	*2.1%*	

In 2018, the destocking trend that we saw at the end of 2017 continued, impacting the turnover for the Supply Chain Solutions business. Retailers continue to face headwind in the form of pressure on sales and margins. Soft goods remained the largest contributor, accounting for 76% of turnover. We continued our efforts to expand our customer base, particularly in off-price segments and hard goods product categories. This helped offset pressure from retail store closures and ongoing destocking in the US. Many of our customers have started to embrace our new value proposition, a speed and digital supply chain model, realizing tangible improvements with increased sell-through, reduced mark-downs and improved inventory levels. These successes will continue to drive growth with existing customers and attract new ones. We also continued to implement effective cost control and focus on enhanced productivity.

TURNOVER

Turnover for our Supply Chain Solutions business decreased by 9.6% to US$9.9 billion because of retail destocking, customer turnover, and a change in the business operating model for one of our key customers, which shifted from a services contract to a joint venture arrangement to facilitate the upselling of digital supply chain services. Due to the strong sales performance of retailers in the off-price channel and selected hard goods categories, as well as our increased business development efforts, we have grown our business in these areas. However, while US retail sales increased on the back of strong consumer confidence, retailers continued to destock in an effort to adapt to fast-changing consumer trends and reduce inventory. This had a negative impact on our turnover. The destocking trend was further exacerbated by the shift from in-store sales to e-commerce sales, which require less display inventory, leading to even more cautious buying patterns.

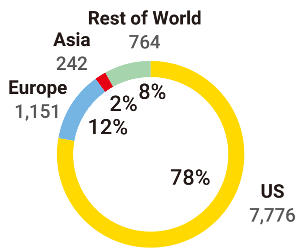




Our 3D virtual design established a leading position against competitors.

The US, Europe, Asia and Rest of World accounted for 78%, 12%, 2% and 8% of the Supply Chain Solutions business' turnover in 2018, respectively. Turnover for the business in the US, Europe, Asia and Rest of World decreased by 7%, 15%, 45% and 7%, respectively. Sales in Europe and Asia were impacted by the change in the business operating model for one of our key customers from a service contract to the joint venture arrangement.

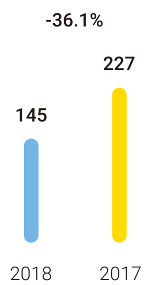
2018 Geographical Market Turnover
US$m



CORE OPERATING PROFIT

Core Operating Profit (COP) decreased by 36.1% to US$145 million while core operating profit margin decreased by 0.6 percentage point to 1.5%. This was driven by a 11.8% decrease in total margin on reduced turnover and a decrease in total margin percentage, offset by a 0.9% decrease in operating costs to US$502 million. The reduction in total margin was due to the disproportionate decrease in turnover from our higher margin accounts and margin pressure in the trading business when we act as principal. Productivity enhancement initiatives such as greater use of technology, process reengineering, and digitalization continued to result in operating costs reduction. Although these were offset by investment in our digitalization initiatives – including 3D design and product development, data analytics, and raw materials platform – as well as restructuring costs and additional account receivable provisions. We will further accelerate our operational excellence with the newly appointed COO and our more focused country-level sourcing and production platform.

COP
US$m



COP Margin -0.6 percentage point	
1.5%	2.1%
2018	2017

Services – Logistics Business

The Logistics business continued its profitable growth momentum. Despite challenging and highly competitive market conditions, in-country logistics services achieved another stellar performance, with strong top-line and bottom-line growth. As with years past, China continued to lead the way as it benefitted from an upsurge of domestic consumption, especially via e-commerce. Our early investment in e-logistics has paid handsome dividends and allowed us to enjoy first-mover advantage. ASEAN advanced aggressively, notching high growth rates across all the economies where we operate. Our new markets of Japan, Korea and India also recorded impressive results well ahead of plan.

We currently operate nearly 25 million square feet of warehouse space serving customers across the four core verticals of footwear and apparel, fast-moving consumer goods, food and beverage and healthcare. Apart from providing storage and pick/pack service for the domestic market, we have progressively moved up the value chain by offering regional and global hub management, reverse logistics and other value-added services. Following the full implementation of the new Oracle transport management system and our digital control tower, transport grew by leaps and bounds. In 2018, we increased our transport market share by cross-selling to our existing warehousing customers and winning new standalone transport customers.

Global freight management was negatively impacted by the slowdown in global trade. Nevertheless, we continued to build our bench strength, expand our network and invest in state-of-the-art information technology platforms to aggressively grow the base, improve service level and enhance productivity.

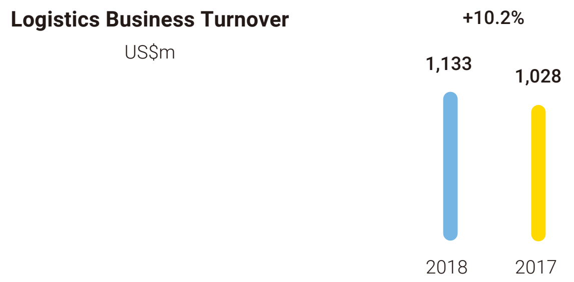
By cultivating strong partnerships with an extraordinary list of strategic customers, we have retained and grown with our existing customers. By continuing to invest in our overall value proposition, we have also pursued and won new customers across the four verticals.

Logistics Business Results

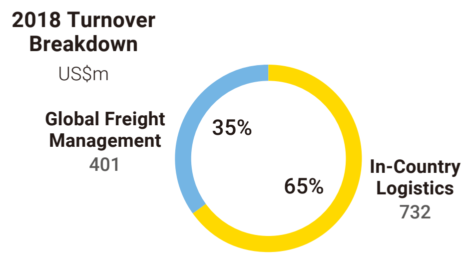
	2018 **US$m**	2017 US$m	Change %
Turnover	**1,133**	1,028	+10.2%
Total Margin	**390**	353	+10.6%
As % of Turnover	***34.4%***	*34.3%*	
Operating Costs	**304**	278	+9.5%
As % of Turnover	***26.8%***	*27.0%*	
Core Operating Profit	**86**	75	+14.6%
As % of Turnover	***7.6%***	*7.3%*	

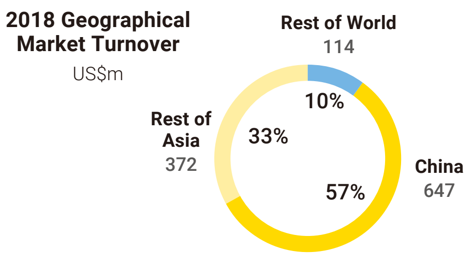
TURNOVER

Turnover for our Logistics business increased by 10.2% to US$1,133 million, which was driven entirely by organic growth. Our new business wins together with the robust growth of consumption in Asia across all channels, in particular e-commerce, provided strong impetus for the in-country logistics business. Furthermore, we have made significant inroads into new markets like Japan, Korea, and India and have newly expanded into the electronics vertical. Weakening global trade and depressed freight rates have impacted our global freight management business particularly in China.



In-country logistics and global freight management accounted for 65% and 35%, respectively, of turnover for the Logistics business.





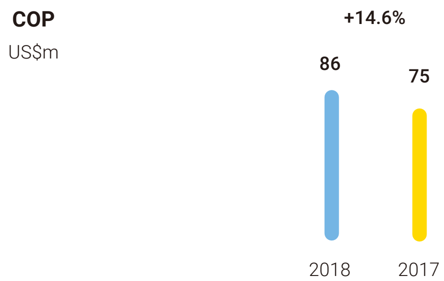
China is our key market for the Logistics business accounting for 57% of turnover. Rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 33% of turnover, while Rest of World accounted for 10%.

China turnover increased by 9.5% due to strong growth momentum in the in-country logistics business, although this was partially offset by the drop in freight rates which affected the global freight management business. Rest of Asia showed strong growth, registering 13.7% growth in 2018 as we ramped up in new markets like Japan, Korea and India. Rest of World turnover increased by 3.7% as it is purely a freight management business and was impacted by market weakness.

CORE OPERATING PROFIT

Core Operating Profit (COP) increased by 14.6% to US$86 million, tracking our double-digit growth trend of the past seven years. This was mainly driven by new customer wins, geographic expansion and our continued focus on productivity improvement.

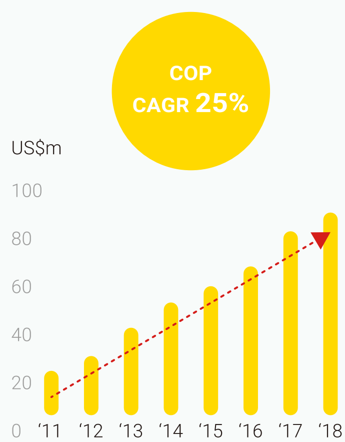
Core operating profit margin expanded by 0.3 percentage point to 7.6%. This was largely due to customer mix optimization, productivity gains and increased penetration of higher-margin value-added services.



COP Margin
+0.3 percentage point

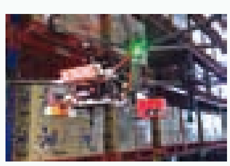
7.6%	7.3%
2018	2017

Strong Track Record




Semi-Automated Vehicles


Goods to Man System


Drones


Pallet Shuttle Systems

Products Segment

The Products segment now consists of our Onshore Wholesale business in three markets – the Americas, Europe, and Asia. The Group strategically divested the three Product Verticals that were formerly part of this segment in the first half of 2018. We announced the strategic divestment of the three Product Verticals in December 2017, obtained our Shareholders' approval in January 2018 with 99.94% of Independent Shareholder votes in favor of the transaction and completed the transaction in April 2018. The strategic divestment has allowed us to set the foundation for a more simplified organization with greater agility and focus on our core competencies as well as 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. The 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 13% of total turnover in 2018. In 2018, we made progress on the strategic development and repositioning of our Onshore Wholesale business toward a leaner, more agile structure. Turnover increased by 7.4%, however, the business continued to face challenges including a lower total margin percentage due to customers' promotional activities and the clouds cast by Brexit and the US-China trade environment.

Onshore Wholesale Business Results

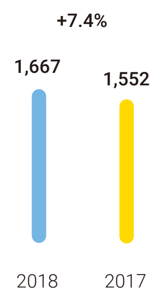
	2018	2017	Change
	US$m	US$m	%
Turnover	**1,667**	1,552	+7.4%
Total Margin	**305**	300	+1.5%
As % of Turnover	***18.3%***	*19.4%*	
Operating Costs	**252**	247	+1.9%
As % of Turnover	***15.1%***	*15.9%*	
Core Operating Profit	**53**	53	(0.3%)
As % of Turnover	***3.2%***	*3.4%*	

One of our showrooms displaying a collection of homewares and apparel.

TURNOVER

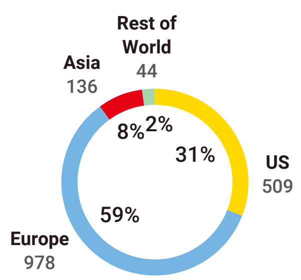
Turnover for the Onshore Wholesale business increased by 7.4% year on year to US$1,667 million. We have seen a recovery through turnover increase with some of our major customers and our Asia business. Our sales to Asian markets and our business with e-commerce platforms have shown signs of growth. However, short-term customer challenges and margin pressure remain.

Onshore Wholesale Business Turnover
US$m



The US, Europe and Asia accounted for 31%, 59%, and 8% of segment turnover, respectively. Turnover in the US increased by 9.1%, mainly driven by the recovery of a few major customers. Turnover in Europe decreased by 1.7% as the UK retail market slowed due to Brexit concerns. While starting off a low base, turnover in Asia more than doubled from last year as we continued to build up our wholesale business for our Asia customers.

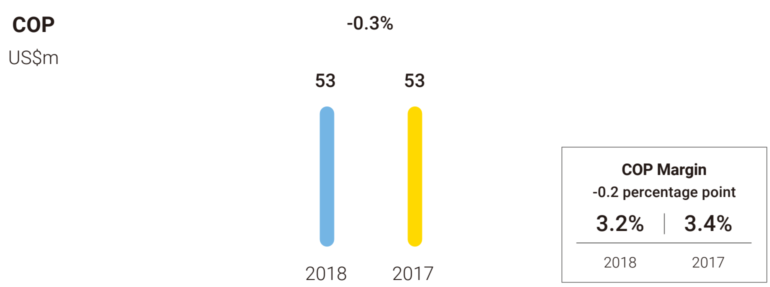
2018 Geographical Market Turnover
US$m



CORE OPERATING PROFIT

Core Operating Profit (COP) for the Onshore Wholesale business was stable at US$53 million as turnover growth was offset by a reduction in total margin percentage from 19.4% to 18.3%.

Core operating profit margin decreased by 0.2 percentage point to 3.2%. This was largely driven by a 1.1 percentage point reduction in total margin percentage due to the highly promotional retail environment globally and anemic consumer sentiment in the UK. Our operating costs as a percentage of turnover improved by 0.8 percentage point. Following our divestment of the Product Verticals, we have continued to invest in restructuring the business to adopt a leaner, more agile structure. This has resulted in a productivity increase, as shown by a reduction in operating costs as a percentage of turnover of 0.8 percentage point to 15.1%.



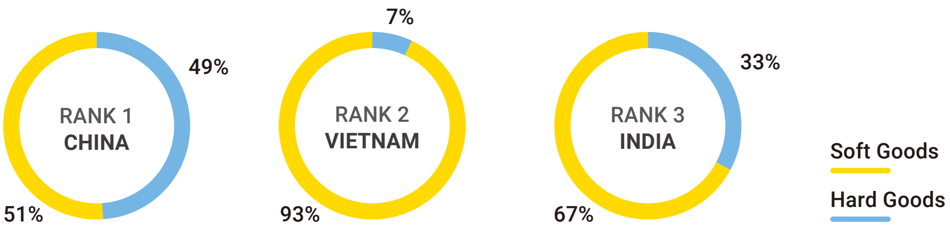
Product Verticals – Discontinued Operations

With the completion of the strategic divestment following Shareholders' approval in January 2018 and in line with our Annual Report 2017, the three Product Verticals have been classified as Discontinued Operations, similar to the spin-off of the Global Brands Group in 2014. For the Product Verticals divestment, we received a consideration of US$1.1 billion. The proceeds were used to pay a special dividend of US$520 million (47.6 HK cents per share) and to redeem perpetual capital securities of US$500 million. We have recognized an operating loss attributable to Shareholders for the discontinued business of the three Product Verticals of US$23 million and a disposal loss of US$114 million from discontinued business. The losses were mainly triggered by the realization of prior period foreign exchange non-cash translation losses in the Group equity account at the time of closing in 2018.

Top Sourcing Countries

Our global network of factories, covering over 50 production countries, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In 2018, our top three sourcing countries are China, Vietnam, and India. We also have sizeable sourcing operations in other countries such as Bangladesh, Cambodia, and Indonesia. 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 Sourcing Countries



People

As an asset-light organization, our people are our most valuable resource. As at 31 December 2018, we had a total workforce of 16,840. This included 8,361 warehouse-related employees who were engaged primarily in our Logistics business. The total employment costs of our Continuing Operations for 2018 was US$711 million compared with US$755 million in 2017. We continue to enhance our productivity and equip our people for the new digital world and are grateful for our colleagues' commitment to build the supply chain of the future.

We are grateful for our colleagues' commitment to build the supply chain of the future.

Balance Sheet and Capital Structure

Solid Recurring Cash Flow

After considering the strategic divestment of the three Product Verticals, Li & Fung continues to have solid recurring cash flow and cash position from Continuing Operations, which comprises the Supply Chain Solutions, Logistics and Onshore Wholesale businesses. Our operating cashflow, together with US$349 million cash on hand carried forward from 31 December 2017, more than adequately funded our working capital, interest expenses, capital expenditure, distribution, and normal dividends. To summarize key cashflow statement items, other than the use of proceeds relating to the divestment of the three Product Verticals:

- Operating profit adjusted for non-cash items: US$341 million
- Working capital outflow of US$87 million
- Capital expenditures of US$106 million
- Payments for consideration payable for previous acquisitions of US$43 million
- Net interest expenses of US$45 million
- Distribution to perpetual capital securities holders of US$49 million, which will be reduced to US$34 million in 2019 after the redemption of US$500 million in perpetual capital securities in May 2018
- 2017 final and 2018 interim normal dividend payments of US$55 million

In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$9 million by the end of December 2018, of which US$7 million were earn-out payments. We continue to be asset-light, and our on-going total capital expenditures mainly include digitalization investments, continued maintenance and the expansion of our logistics business. With the proposed spin-off and listing of the logistics business, LF Logistics will have direct and independent access to both equity and debt capital markets to raise funds to achieve its business strategies. Furthermore, it will allow Li & Fung to focus and reallocate its operating cash flow towards digitalization investments and the development of new business.

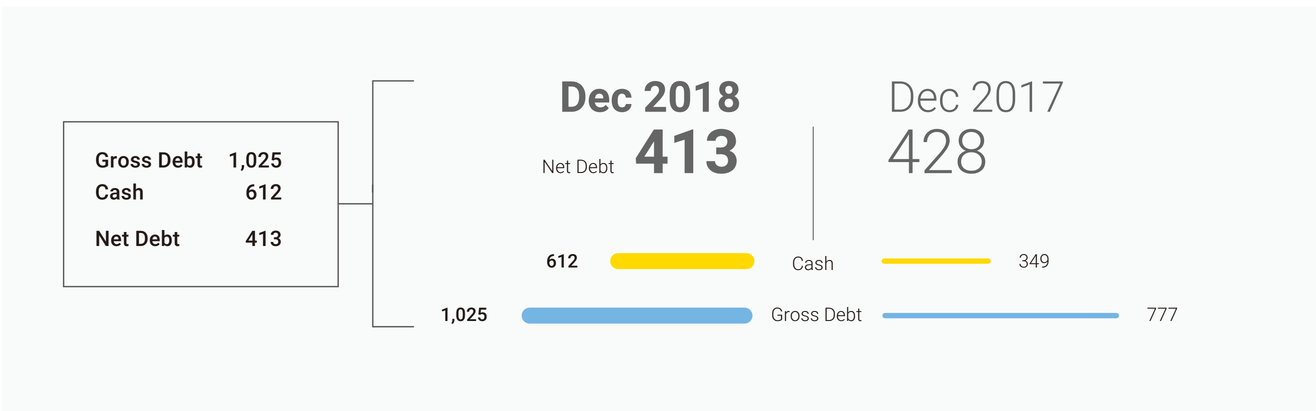
Strong Balance Sheet

As at 31 December 2018, our cash position was US$612 million after the redemption of US$500 million in perpetual capital securities as well as payments of the 2017 final and special dividends using the proceeds from the strategic divestment of the three Product Verticals. We have also reduced our acquisition tail payments in the form of remaining consideration payable further improving our balance sheet. As at 31 December 2018, our total borrowings were US$1,025 million, and our net debt (total borrowings minus cash) was stable at US$413 million. Our weighted average tenure of total borrowings is around two years. The majority of our debt is at a fixed rate and denominated in US dollars.

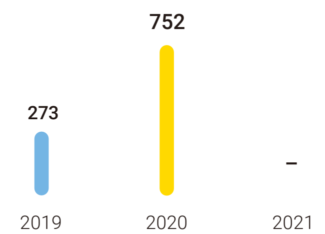
Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet in order to maintain maximum financial flexibility. During the first half of 2018, we renewed and extended our long-term committed bank loan facilities, which total US$827 million with average maturity in 2021. During the second half of 2018, we drew down US$250 million of short-term debt to have excess cash and liquidity. This excess liquidity will allow us to maximize flexibility in managing our near-term operations and debt maturity profile regardless of the US-China trade negotiations or other macroeconomic turbulence.

As at 31 December, our due from related companies was US$709 million, which is primarily from Global Brands Group. This also includes US$154 million of account receivables, which Global Brands Group is processing purchase orders on a transitional basis on behalf of its divested business sold to an independent third party.

Cash and Gross Debt
US$m



Debt Maturity Schedule
US$m



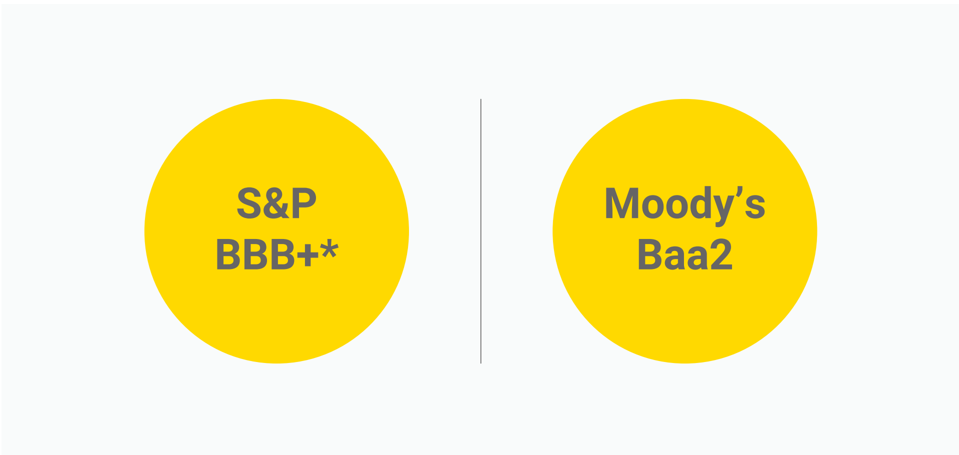
	2019	2020	2021
Bank Loans	273	1	–
Bonds	–	751	–

Gearing Ratio and Current Ratio

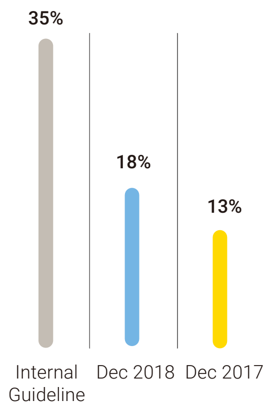
Our gearing ratio and current ratio of Continuing Operations were 18% and 1.0 respectively as at 31 December 2018 (13% and 1.4 respectively for the Group as at 31 December 2017). The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 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 2018, our credit rating was Baa2 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



Gearing Ratio



* On 25 March 2019, Standard & Poor's has downgraded the Company's credit rating from BBB+ to BBB, with stable outlook.

Banking Facilities

Bank Loans and Overdrafts

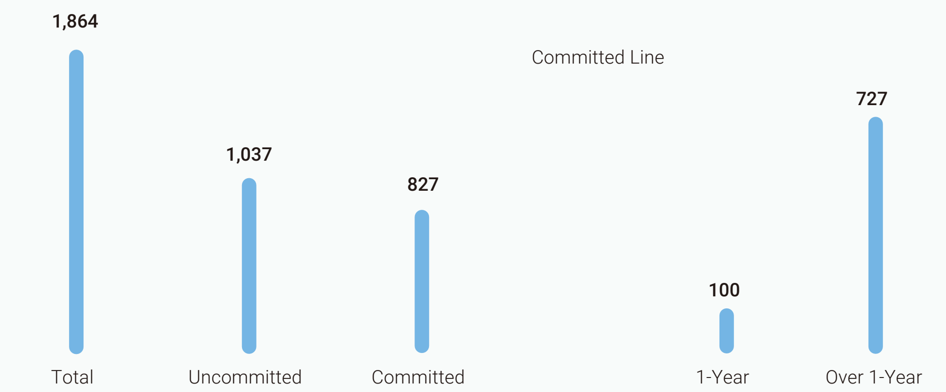
As at 31 December 2018, we had available bank loans and overdraft facilities totaling US$1,864 million, US$827 million of which were committed facilities. The majority of the committed facilities totaling US$727 million have a tenor of three years with maturities in 2021 or after. Only US$274 million of the Group's bank loans and overdraft facilities were utilized. Unused limits for bank loans and overdraft facilities amounted to US$1,590 million, with US$826 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by US$2 billion in bank trading facilities that mainly include letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers will only be crystallized when our suppliers have shipped the merchandise to our customers or to the Group in accordance with all the terms and conditions specified in the related contractual documents. As at 31 December 2018, only approximately 11% of the trade finance facilities were used.

Bank Loans and Overdraft Facilities

US$m



	Total	Uncommitted	Committed
Used	274	273	1
Unused	1,590	764	826

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique natures 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 downward fair value adjustments to certain purchase consideration payables should the acquired businesses be unable to achieve predetermined performance thresholds within the timeframes stipulated in their sale and purchase agreements. Given that a contingent consideration entitlement is usually contractual in nature and based on a specific formula linked to a threshold, the underlying performance of an acquired business could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high-performance thresholds of an earn-up payment is not reached.

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 2018, as the recoverable amount of each CGU was in excess of its respective goodwill carrying value. We will continue to perform goodwill impairment tests on an on-going basis.

Risk Management

We have strict policies governing accounting control, credit and foreign exchange risk, and treasury management.

Credit Risk Management

Credit risk mainly arises from trade and other receivables. Our principal trading business carries a higher credit risk profile given that we are acting as a supplier and therefore take full counterparty risk for our customers in terms of accounts receivable and inventory.

In addition, as we issue letter of credit and 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 increased insolvency risk among 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

Uncertainties in the global trade landscape will continue to affect the supply chain in 2019. Migration of production from China is not only driven by tariff increases but also China's push to transform from a manufacturing exporter into a high-technology service provider. Additionally, the US latest position on the Generalized System of Preferences program for India and Turkey will further complicate trade. However, regardless of macroeconomic and geopolitical challenges, we will continue to help our customers optimize their sourcing and production through our strong network of over 50 production countries.

We expect the multi-year destocking trend in retail to continue in 2019. This will reduce customers' merchandizing budgets despite improved retail sales and translate into headwinds for our Supply Chain Solutions business. With continued disruption in the retail landscape, we expect more store closures and brands and retailer bankruptcies, which will negatively impact turnover. Therefore, we have undertaken the following initiatives to alleviate this short-term pressure and position us for expansion in the longer-term.

Firstly, the business development team has been converting customers from a promising pipeline and their efforts will be further helped by our increasingly rich digital capabilities. Ramping up to full potential for new customers takes time, which means contributions from new customers may not fully counter the headwinds facing our existing customer base; however, continued customer wins and the conversion of strategically significant accounts reinforce our confidence in our solution-based business development approach and set a solid foundation for future growth.

Secondly, our account management function, under the new organizational structure and leadership, is now singularly focused on growing our market share with existing customers and stepping up services to new accounts. We will continue to pursue both market share gain and pipeline conversion as drivers of growth and as a countermeasure to industry destocking and store closures.

Thirdly, the appointment of the COO and regional production hub leaders are expected to enhance operation excellence and improve service delivery to our customers, including vendors. The current redesign of our sourcing and production platform resources will achieve better operating leverage and faster response time for our customers. We are confident that higher levels of customer satisfaction will lead to more business opportunities.

2018 was a turnaround year for the Onshore Wholesale business. We expect the business to continue its recovery journey and productivity drive. Nevertheless, Brexit may negatively impact consumer sentiment in the UK and across Europe, potentially impacting top line.

In 2019, we will focus on completing our mission of building a comprehensive digitalized end-to-end supply chain. We will accelerate our investments in digitalization based on the prudent US$150 million figure set for this three-year plan. This spending will put pressure on our operating margin, nonetheless, we believe that digitalization is necessary for the long-term business strategy of Li & Fung. The digitalization initiatives have already started to deliver results and we expect more tangible return once our full-service offering is in place.

The strong organic growth momentum of Logistics is poised to continue, extending the business double-digit growth trend of the past several years. With the proposed spin-off and listing of LF Logistics, the company will have direct and independent access to the equity and debt capital markets, providing financial flexibility for it to execute its multi-faceted growth strategy. Furthermore, we believe the proposed spin-off will allow us to unlock the value of LF Logistics and further enhance the capital structure and financial flexibility of the Group.

Our high-tech digital boardroom.

Our Commitment to Good Governance

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

Our Commitment to Good Governance

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

The Board

Board Composition

The Board is currently composed of three Executive Directors, two 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 appoint 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 81.

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

Marc Robert Compagnon
- Member of Risk Management and Sustainability 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

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

Joseph C. Phi
Executive Director, Group President and President of LF Logistics

Chih Tin Cheung
- Member of Audit Committee

John G. Rice
- Member of Audit Committee

Since 1 January 2019 and till the date of approval of this annual report, the following changes to the Board and Board Committees have occurred:

- Marc Robert Compagnon has been re-designated from Executive Director to Non-executive Director of the Company and stepped down as Group President with effect from 28 January 2019.
- Joseph C. Phi has been appointed as Group President with effect from 28 January 2019.

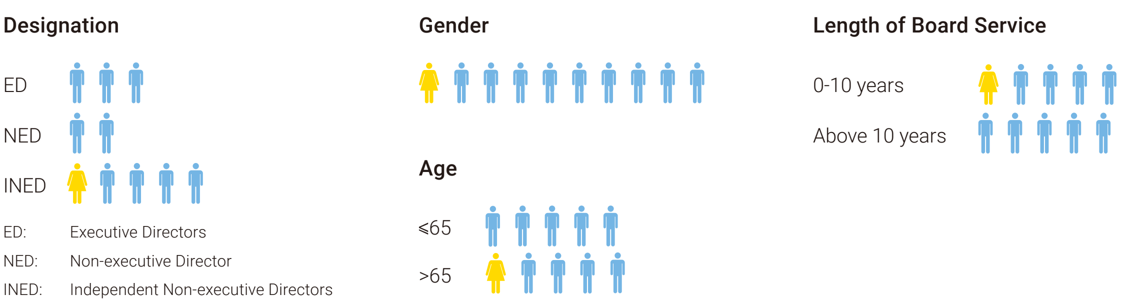
Board Diversity

We believe board diversity enhances decision making capability, allowing for different perspectives, reduces likelihood of group thinking, 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 2018, the Nomination Committee identified a number of potential candidates and recommended two of them to join the Board. All two 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

Our annual general meeting.

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 2018 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 successfully carried out the suggestion of last year to further enhance diversity of the Board by appointing two additional new directors to the Board in 2018.

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 2018. 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 2018, 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 2018 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, separate meeting was held in 2018 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 2018.

Liability Insurance for the Directors

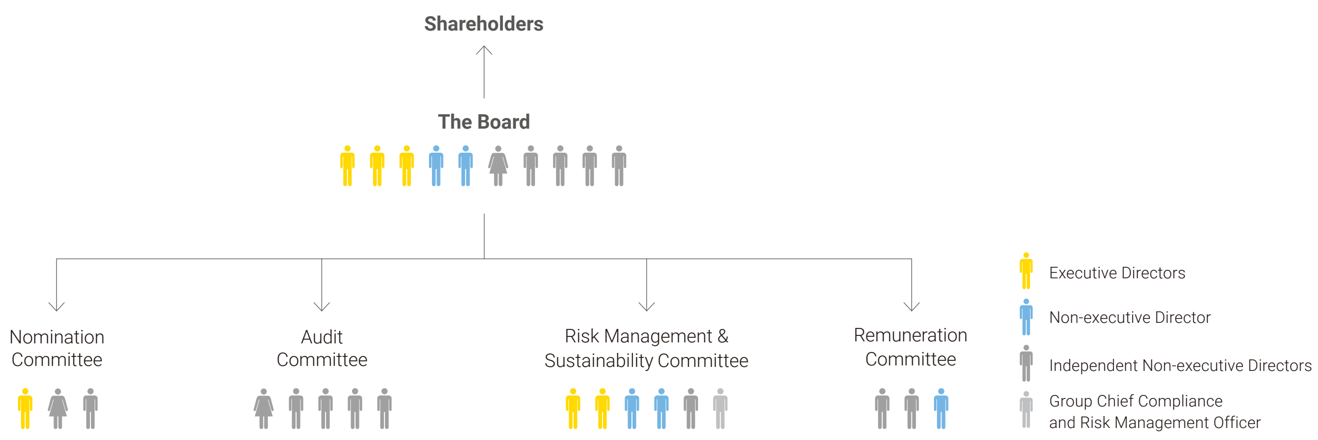
Details of liability insurance to indemnify the Directors for their liabilities arising out of corporate management activities are disclosed in the "Report of the Directors" section on page 145.

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 2018 annual general meeting to answer any questions from Shareholders on the audit of the Group.

In 2018, the Board held five meetings with an average attendance rate of 100%. Below is a summary of the Board and committee composition, and meetings held in 2018.

The Board and Shareholders



Board and Committee Meetings for Year 2018

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	Special[10] General Meeting
Victor Fung Kwok King [1]	5/5	N/A	N/A	4/4	2/3	1/1	1/1[11]
Marc Robert Compagnon [2]	5/5	N/A	N/A	4/4	N/A	1/1	1/1
Allan Wong Chi Yun [3]	5/5	N/A	4/4	4/4	3/3	1/1	1/1
Martin Tang Yue Nien [4]	5/5	2/2	4/4	N/A	3/3	1/1	1/1
Margaret Leung Ko May Yee [5]	5/5	2/2	4/4	N/A	N/A	0/1	0/1
Chih Tin Cheung	5/5	N/A	4/4	N/A	N/A	1/1	0/1
John G. Rice [6]	5/5	N/A	4/4	N/A	N/A	1/1	0/1
William Fung Kwok Lun [7]	5/5	2/2	N/A	3/4	N/A	1/1	1/1[11]
Spencer Theodore Fung [8]	5/5	N/A	N/A	3/4	N/A	1/1	1/1[11]
Joseph C. Phi [9]	5/5	N/A	N/A	N/A	N/A	1/1	1/1
Jason Yeung Chi Wai [12]	5/5[12]	2/2[12]	4/4[12]	4/4	3/3[12]	1/1[12]	1/1[12]
Average attendance rate	**100%**	**100%**	**100%**	**92%**	**89%**	**90%**	**70%**
Dates of meeting	22/3/2018 15/5/2018 25/6/2018 22/8/2018 20/11/2018	15/3/2018 20/11/2018	15/3/2018 14/5/2018 21/8/2018 20/11/2018	1/2/2018 25/4/2018 13/8/2018 29/10/2018	14/5/2018 21/8/2018 20/11/2018	15/5/2018	31/1/2018

1. Honorary Chairman, and Chairman of the Risk Management and Sustainability Committee
2. Re-designated from an Executive Director to a Non-executive Director and stepped down as the Group President with effect from 28 January 2019
3. Chairman of the Remuneration Committee
4. Chairman of the Nomination Committee
5. Chairman of the Audit Committee
6. Appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 10 January 2018
7. Chairman of the Board
8. Group Chief Executive Officer
9. President of LF Logistics, appointed as an Executive Director with effect from 10 January 2018, and appointed as Group President with effect from 28 January 2019
10. Special General Meeting was held to approve the strategic divestments of the Furniture, Beauty and Sweaters product verticals and the transactions contemplated thereunder
11. Abstained from voting at the Special General Meeting as each of them was considered to have a material interest in the strategy divestment and the transactions contemplated thereunder
12. Group Chief Compliance and Risk Management Officer, attended Board and Committee meetings as a non-member

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 twice in 2018 (with an attendance rate of 100%) 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 2018 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, risk management and internal controls, 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 2018 (with an attendance rate of 100%) to review, with management and the Company's internal and external auditors, the internal controls and financial matters as set out in the Committee's written terms of reference, and to make relevant recommendations to the Board.

In 2018, the Committee's review covered:

- Internal auditor's audit findings
- External auditor's audit plan for 2018 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 Hong Kong Companies Ordinance, Listing Rules governing capital raising and the Corporate Governance Code, and their respective impacts to the Company
- Emerging risks (particularly US-China Trade War, credit, global tax regime, cyber security, data privacy and protection, anti-corruption, business ethics and supply chain sustainability) facing the Group
- Update on payment status of trade receivable from a related company
- 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

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 2018, no incident of fraud or misconduct was 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 2018, the external auditor provided permitted non-audit services mainly in financial reporting and human resources management system enhancements and tax compliance services. The nature and ratio of annual fees to the external auditor for non-audit services and for audit services in 2018 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 193 and 227).

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 2018 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 2019 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 includes 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 2018 (with an attendance rate of 92%) 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 2018:

- Update on credit insurance on trade receivables
- Risk mitigation strategy for modern slavery in the supply chain
- Updates on matters related to our corporate responsibility and sustainability initiatives, compliance with our Code of Conduct and Business Ethics and Supplier Code of Conduct and overall supply chain management and partnerships
- Zero-tolerance issues that are violations of the Supplier Code of Conduct and remediation actions
- Revision of the Supplier Code of Conduct to address the UN Guiding Principles on Business and Human Rights and the Ethical Trade Initiative's Base Code with the rollout of the updated Code in 2019

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 2018 (with an 89% attendance rate) to review and determine the Directors' fee for the 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 pages 195 to 196 and Note 40 to the "Financial Statements" on pages 244 to 246.

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 2018, 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 2018, specific confirmation of compliance has been obtained from each Director. No incident of non-compliance by Directors and relevant employees was noted in 2018.

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 145 to 147. The Shares held by each member of senior management are less than 2% of the issued share capital for the year ended 31 December 2018.

Directors' Responsibility for Financial Statements and Auditor's Responsibility

The Directors' responsibility for preparing the financial statements is set out on page 148, and the auditor's reporting responsibility is on pages 151 to 152.

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 2018.

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 132.

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 2018. 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 awards from the Hong Kong Investor Relations Association as well as the Corporate Governance Asia Magazine in 2018.

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, announcements and circulars readily available on both the website of the Stock Exchange and our corporate website. Furthermore, presentation materials as well as comprehensive information on our company's business model and strategy can be found on our corporate website. Lastly, investors can also elect to receive information by email.

Effective engagement with investors and timely disclosure are key components of good corporate governance.

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.

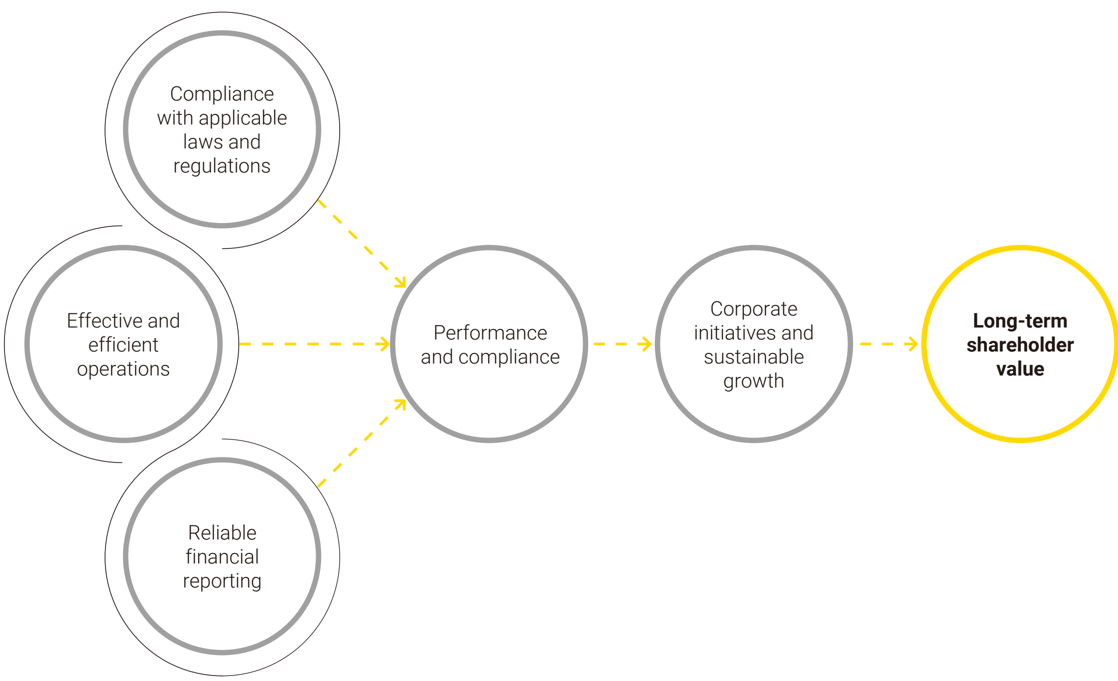
Described below are the main characteristics of our risk management and internal control framework.

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 2018, no significant corrective action needed to be taken.

With the strategic divestment of three of our product verticals namely Furniture, Sweaters and Beauty, and a renewed focus on our core business in 2018, we had further streamlined and simplified our operations and processes on ongoing basis.

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 234 to 239.

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 its accompanying policies and guidelines are available on One Family, our internal communications platform.

Our Anti-Bribery Policy (the Policy) clearly states to all employees that at Li & Fung, we take a zero-tolerance approach to bribery and are committed to complying with all applicable anti-bribery laws of different jurisdictions. The Policy covers the following:

- defines the scope of persons or companies and extended to persons or companies who perform services for us or on our behalf anywhere in the world
- forms and examples of bribery
- Bribery laws concerning public officials
- Reporting channel for any suspected or actual bribery
- Serious consequences for employees committing bribery, which include dismissal or termination of employment, criminal sanction by governmental authorities (such as imprisonment and unlimited fines in many jurisdictions)

Li & Fung may also be subject to criminal sanction by governmental authorities, unlimited fines, serious reputational damage, loss of business, etc., if our employees commit any form of bribery. We therefore consider full compliance with the Policy at all times of paramount importance.

Our employees

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

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.

In 2018, the Working Group has additionally organized six Business Ethics and Integrity workshops for senior leaders to reiterate the importance and the Group's emphasis on our core ethical values from a top-down approach. Over 130 global senior leaders attended the workshops and majority of the senior leaders had conducted sharing sessions with their teams to cascade the values and messages of proper business ethics.

We provide train-the-trainer training for overseas offices.

In addition, an electronic learning platform for all employees was launched in 2018 to further strengthen employee awareness of the Company's ethical values and for all employees to access business ethics knowledge and training anytime and anywhere.

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.

Our suppliers

Our suppliers are required to acknowledge their understanding of and accept our Li & Fung Supplier Code of Conduct, which stipulates our ethical standards and requirements for doing business and emphasizes our zero-tolerance approach to 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 programs

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 2018, 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.

Certain significant emerging rules and regulation are outlined as follows:

BEPS

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.

GDPR

The General Data Protection Regulation (GDPR) is a regulation in European Union (EU) law on data protection and privacy for all individuals within the EU and the European Economic Area (EEA). It also addresses the export of personal data outside the EU and EEA. GDPR replaced the 1995 EU Data Protection Directive and became effective on 25 May 2018 and becomes law within the EU in which all organizations must comply with by this date. The GDPR aims primarily to give control to individuals over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.

The GDPR not only applies to organizations located within the EU but also applies to organizations located outside of the EU if they offer goods or services to, or monitor the behavior of, EU data subjects. It applies to all companies processing and holding the personal data of EU data subjects residing in the European Union, regardless of the company's location.

Companies will have to implement all the necessary changes to their own laws systems and operations to meet the new compliance requirements. GDPR strengthens and unify data protection for individuals within the EU. In case of non-compliance, administrative fines can be levied as penalties depending on the conditions of infringements:

- Up to €10 million, or 2% annual global turnover – whichever is higher

- Up to €20 million, or 4% annual global turnover – whichever is higher

Li & Fung has offices presences in EU and process data of EU data subjects, GDPR is applicable to Li & Fung. Our EU offices have already implemented the necessary changes, with advice from external legal firm, to ensure the compliance with the GDPR requirements.

6. INFORMATION TECHNOLOGY RISK MANAGEMENT

Our cyber-security approaches and security infrastructure are continuously enhanced to ensure effective information security within the company. We have taken additional steps over 2018 through governance framework advancement, security awareness training reinforcement and security architecture enhancement.

Our corporate infrastructure and information systems are underpinned by ISO27001 certification in information security management and during the year, we further strengthened governance and improved control practices in our offices worldwide. Our security governance framework, structured by international standards and best practices, provides transparency on strategies execution, manage information security risks in compliance with rapidly evolving local requirements and regulations around the world.

We have a strong risk management culture in place, which is embedded through regular communication and tailor-made security awareness trainings for our users. Additionally, in this year, we launched security-oriented, modular eLearning programs proactively educating our staff to become more cautious about targeted cyber-attacks and advanced threats.

We strive to enhance security of our systems and prevent threats from ever reaching our users. Together with existing security protection mechanisms, we have further implemented a state-of-the-art add-on technology with enhanced capabilities of proactively detecting and responding to potential threats in our enterprise systems which is now fully integrated into our multi-layered security architecture landscape.

We will continue to assess, manage and update strategies to enhance our cybersecurity capabilities that will cater for company development, sustaining productivity and building long-term mutual benefits with stakeholders.

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.

Continuous monitoring

The Group is facing a wide range of current and emerging risks which require continuous and close monitoring by management, for example, business risks arising from US-China Trade War and Brexit. We are committed to continually identifying and mitigating these risks and enhance our risk management capabilities and awareness across the Group to ensure the sustainability of our business.

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 2018, 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 2018.

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 2018.

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 2018:

- 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 73. Brother of William Fung Kwok Lun and father of Spencer Theodore Fung. Group Chairman of the Fung Group, a Hong Kong-based multinational which comprises major operating groups engaging in trading, logistics, distribution and retailing. They include publicly-listed Convenience Retail Asia Limited, Global Brands Group Holding Limited and the Company, and other privately held entities. 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, 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). 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). Adviser of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority. Appointed as member of the Chief Executive's Council of Advisers on Innovation and Strategic Development on 21 March 2018. Chairman of the 2022 Foundation, a non-profit entity focused on research into Hong Kong's long-term competitiveness. 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). A member of the Chinese People's Political Consultative Conference (January 2003–January 2018). Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme (September 2014 – September 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 70. 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, both 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. Former non-executive director of Trinity Limited (December 2006–April 2018). 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 Chinese 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 45. 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 from April 1999 to June 2000. 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
Non-executive Director

Aged 60. Non-executive Director and Senior Advisor of Fung Group since January 2019. Formerly Group President and Executive Director of the Company. 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
Group President and
President of LF Logistics

Aged 56. Executive Director since January 2018 and Group President since January 2019. 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. A former director of Macy's China Limited (August 2015 – January 2019). Adjunct professor in the School of Business and Management at The Hong Kong University of Science and Technology (2013–2018).

Age 68. 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 66. An Independent Non-executive Director since 2013. Former vice-chairman and chief executive of Hang Seng Bank Limited, chairman of Hang Seng Bank (China) Limited, a director of various subsidiaries of Hang Seng Bank Limited, a director of The Hongkong and Shanghai Banking Corporation Limited and the group general manager of HSBC Holdings plc. 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), QBE Insurance Group Limited (2013–2017) and deputy chairman, managing director and executive director of Chong Hing Bank Limited (February 2014–May 2018). 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 69. 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, a Master of Science degree in Management from the Massachusetts Institute of Technology and a Doctor of Letters degree (*honoris causa*) from The Hong Kong University of Science and 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 48. 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 62, An Independent Non-executive Director since January 2018. Non-executive Chairman of the Gas Power, a business unit at General Electric Company ("GE"). Former vice chairman of GE. 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 Centers for Disease Control and Prevention Foundation in Atlanta.

Supporting the Board

Edward Lam Sung Lai
Chief Financial Officer

Aged 52. 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. A graduate of the 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 64. 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 55. 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). Member of the Membership Committee of HKICS (2013–2018) and its vice-chairman in 2018. Member of the Company Secretaries Panel of HKICS (2012–2015). Recipient of the 1st Asian Company Secretary Recognition Award by Corporate Governance Asia in 2013.

Senior Management Biographies

Fanny Cheng Pui Wah
Executive Director
Supply Chain Solutions

Aged 51. Executive Director of Supply Chain Solutions. Oversees a portfolio of businesses in the US, Canada, Europe and Latin America. Joined the Group in 2000 following its acquisition of Colby International Limited where she previously held several positions including fashion coordinator, general merchandise manager and merchandising director. Involved in all aspects of Colby's global sourcing operations and served customers in North America for 12 years. During the course of her career, she has managed businesses across varying sectors including department stores, specialty stores, brands, hypermarket, and off-price.

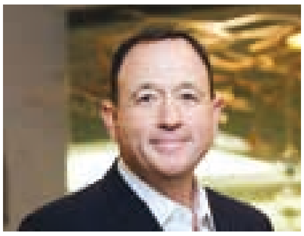
Sean Christopher Coxall
President of Supply Chain Solutions

Aged 54. President of Supply Chain Solutions. Leads the Branded Fashion and Sportswear Group that provides global brands and specialty fashion retailers with innovative supply chain solutions. More than 35 years of experience working in retail, buying and worldwide sourcing. Previously, executive director of Authentic Brands Group and oversaw the European Apparel Group from 2010 to 2016. Began his career with Marks & Spencer's management scheme in London in 1981 and then worked across store management and senior selector roles spanning product categories from men's casualwear, leisurewear and knitwear, and underwear and nightwear to men's tailoring. Prior to joining the Group in 2001, design director at Warnaco where he was responsible for product development for their key brands, including Calvin Klein Jeans, Calvin Klein Underwear and Chaps Ralph Lauren.

Gilles Rene Fries
Executive Director
Supply Chain Solutions

Aged 58. Executive Director of Supply Chain Solutions. Oversees all business-related activities for shoes and accessories. Joined the Group following the acquisition of CGroup in 2007. Since then, he has held senior positions in LF Beauty, LF USA Sourcing and GBG Sourcing. More than 35 years of experience working in retail, buying and worldwide sourcing. Prior to joining the Group, managing director of Andre, the buying office in Hong Kong for the French retail group, Vivarte. Holds a bachelor's degree in Business Management from Ecole Supérieure des Sciences Commerciales d'Angers (ESSCA) in France.

Aged 48. Executive Director of Supply Chain Solutions. Leads the Global Home Solutions Operating Group which manages both the hardline and soft home business for the Group's customers in Asia, North America, Europe, Latin America, Australia and Africa. Joined the Group in 2010 and has held other senior positions including Head of Operations and Ethics Director for the hardline business. In 1999, co-owned GTO Ltd, a full-service consumer goods contract manufacturing business for major U.S. retailers and brands seeking a retail presence in Asia. Holds a Bachelor of Arts degree major in Psychology from the University of San Francisco.



Sean Michael Looram
Executive Director
Supply Chain Solutions

Aged 57. President of LF Asia Direct since May 2017 and responsible for building the Asian business to meet the growing needs of Asia's consumers as well as providing value to US and EU customers. Joined the Group in 2000 with the acquisition of Colby International Limited where she was the Chief Operating Officer and directly responsible for the operational and merchandising matters for Colby's apparel business worldwide. Emily's prior roles included Chief Administrative Officer of the Group responsible for human resources, global hub operations, corporate services including global procurement and global workspace management of the Group, and 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 42. Chief Digital Officer. Joined the Group in January 2019 to accelerate the Company's digital strategy. He is focused on realizing Li & Fung's vision of creating the supply chain of the future and building the LF digital platform. Prior to joining the Group, co-founded and was the COO of Gravity Supply Chain, at which his team developed and brought to market, a state-of-the-art digital supply chain management platform. Previously held a number of leadership roles at Uniserve Group and TCC Global.

Darren Peter Palfrey
Chief Digital Officer

Senior Management Biographies (continued)

Aged 46. Executive Director of Business Development. Leads strategic business development and focused on driving growth and synergies across the Group. With over 25 years' experience in change management, strategic sourcing, supply chain management and merchandising. Previously held senior roles in international companies including Smart Shirt Hong Kong, R-Pac International, Esquel Apparel and Tommy Hilfiger. Holds a Diploma in Business Administration from Singapore Polytechnic where she majored in marketing.

Ai Lin Toh
Executive Director
Business Development

Aged 57. President of Supply Chain Solutions, responsible for driving synergies across the supply chain and introducing value-added strategies to the 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' experience in strategic sourcing and operations. 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.

Deepika Rana
President of Supply Chain
Solutions

Aged 55. Joined the Group in 2016 as the Chief Human Resources Officer. 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.

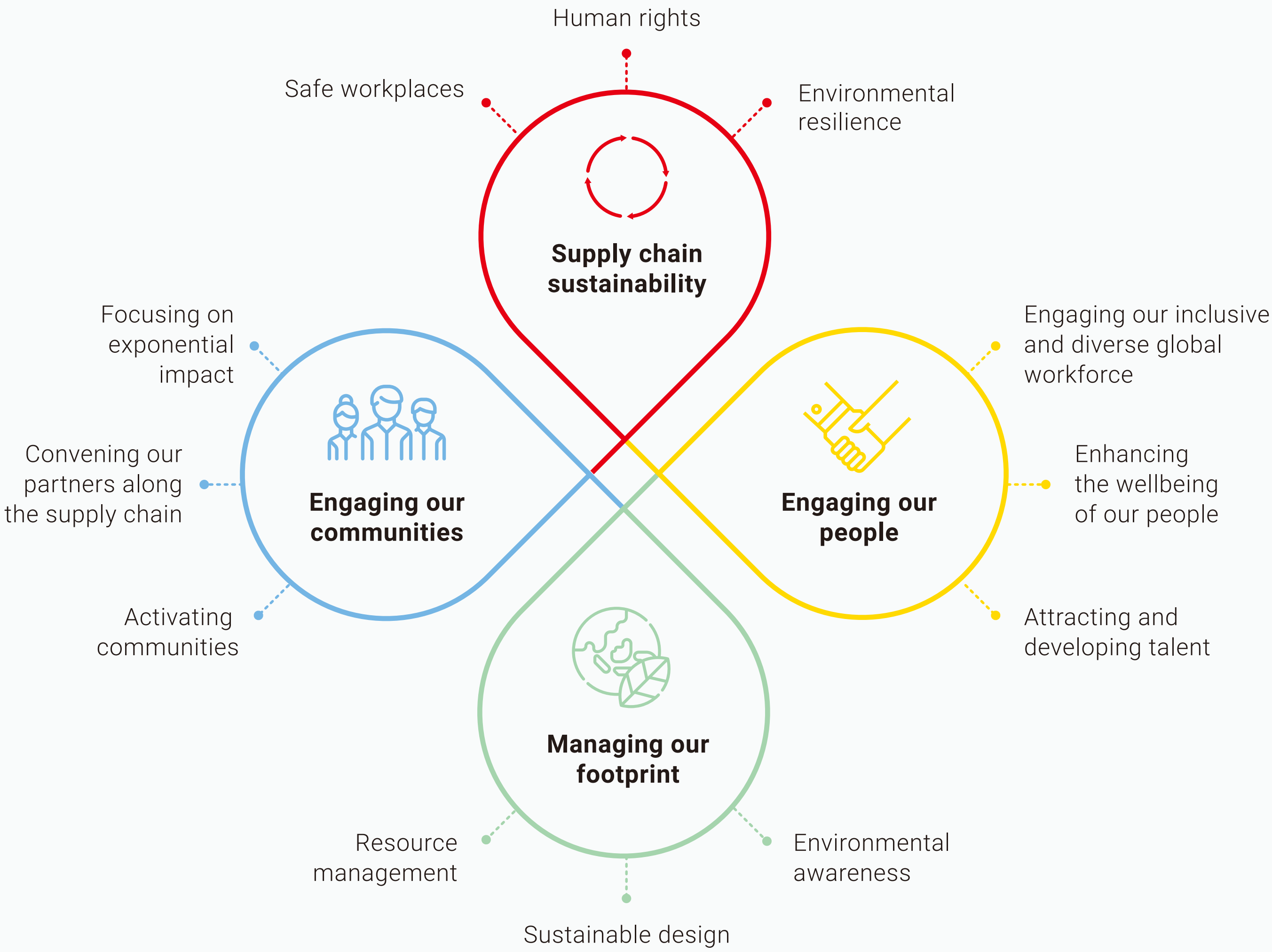
Roger Guy Young
Chief Human Resources Officer

Aged 66. Chief Operating Officer. Joined the Group in October 2018 to drive operational excellence in the Company's global production platform. In 2016, cofounded Cooper Aerobics Wellness Center in China, the first fitness and wellness center of its kind in China. Prior to that, served as chairman and CEO of inQbrands and also held other senior roles including chief sourcing and production officer at Gymboree, executive vice president for private brand and global sourcing at Michaels Stores Inc, vice president of private brand development and global sourcing at Office Depot, and vice president for global sourcing at Hudson's Bay Company. Advisor to China's State Administration of Foreign Exchange in 2009 and adviser to the Trade Development Bureau of China's Ministry of Commerce in 2013. Also served on the Board of Daymon Worldwide from 2013 to 2016. Holds a Master of Arts degree in Language and International Trade from Eastern Michigan University in 1987.

Zhu Weizhong (Wilson)
Chief Operating Officer

Sustainability @ Li & Fung

Engaging our people, improving supply chain sustainability, responsibly managing our footprint and improving the lives of those along the supply chain is central to our Sustainability Strategy.



Our Sustainability Strategy

2018 marks the ninth year of implementing our holistic Sustainability Strategy. Our actions are aligned under four pillars: Supply Chain Sustainability, Engaging our People, Our Communities and Managing our Footprint. Since 2009, we have made significant progress against our qualitative and quantitative targets.

Sustainability @ Li & Fung

Integrating sustainability into our operations and along our value chain is central to our business success.

Li & Fung, the Hong Kong-headquartered, multinational group, is the world's leading supply chain solutions partner for foremost brands and retailers worldwide. We design, source and deliver a diverse range of products – including apparel, accessories and household items – from a network of 10,000 suppliers in over 50 production countries, to over 2,000 customers globally. With over 16,800 people in over 230 offices and 280 distribution centers, we are an asset-light organization using our extensive reach, depth of experience, market knowledge and digital solutions to enable our customers to respond quickly to evolving consumer and production trends.

We are focused on digitalizing our global supply chain, to create 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 partners in our ecosystem. Our priority is developing and operating responsible, agile supply chains that meet the demands of a dynamic retail sector, while protecting and improving the lives of all those who are touched by it.

We have been evolving our holistic Sustainability Strategy for over nine years and continue setting aspirational goals to meet best practice benchmarks and stakeholder expectations for a responsible business. Improving our environmental, social and governance (ESG) performance drives our Sustainability Strategy and we integrate the sound management of ESG issues into our global operations.

Key challenges we are addressing include safeguarding the livelihoods, health, safety and wellbeing of people within our own organization and supply chains, and improving our performance in a world with increasingly scarce resources, and severe levels of pollution and environmental degradation. These issues, which are exacerbated by the impact of climate change, pose risks and are opportunities to evolve our Sustainability Strategy and our day-to-day activities. With increased transparency and action, we aim to improve working and environmental conditions in factories and build sustainable communities along our supply chain.

The need for greater transparency, accountability and industry cooperation to address our common, global challenges influences how we do business and engage with our stakeholders.

Our Commitment to Sustainability and Disclosure

Improving our sustainability performance and enhancing our overall disclosure[1] 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 progress in implementing actions to support the UNGC's 10 Principles on human and labor rights, the environment and anti-corruption. Since 2016, the Fung Group has aligned with the UN's Sustainable Development Goals (UN SDGs) and last year expanded its reporting[2] on how its publicly-listed companies are making progress to support the goals of No Poverty, Good Health and Wellbeing, Gender Equality, Affordable and Clean Energy, Decent Work and Economic Growth and Responsible Production and Consumption.

The goal of our Three-Year Plan and beyond is to improve the lives of over a billion people along our supply chain. We do this by engaging our customers, suppliers, colleagues, partners and communities to create shared value. Through this common pursuit of shared value, we align our actions along the supply chain to make progress towards six of the UN SDGs.

1 NO POVERTY | 3 GOOD HEALTH AND WELL-BEING | 5 GENDER EQUALITY | 7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

In 2018, we were recognized as one of 37 companies in Asia to receive the Asset Corporate Awards 2018 – Platinum Award for ESG, and one of six to be recognized for ten consecutive years. We received a Certificate of Excellence as one of the Hong Kong Management Association's Sustainability Award winners in 2017 and the Hong Kong Award for Environmental Excellence – Gold Award for the Servicing and Trading sector and the Hong Kong Green Organization Certificate[3] from the Hong Kong SAR Government's Environmental Campaign Committee.

As part of our commitment to sustainability, transparency and disclosure, we are a constituent of the FTSE4Good Index Series, a leading global sustainability index, and are recognized as a Caring Company in Hong Kong. We submit Climate Change and Supply Chain responses to the Carbon Disclosure Project (CDP), as requested by our investors and our customers, and we also submit information to ESG raters such as Sustainalytics and MSCI.

1 Refer to our website for our HKEX ESG Guide 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.

2 Refer to the Fung Group's 2017 Communication of Progress – https://www.unglobalcompact.org/what-is-gc/participants/6121-Fung-Group

3 The certificate is valid into 2018.

Our Stakeholders

Understanding the needs, concerns and views of our stakeholders, engaging them in regular, open dialogue, and integrating their ideas and priorities into our operations, is essential to our success. Through regular business activities, we engage with our employees, customers, suppliers, industry and NGO partners to improve performance and conditions in the supply chain and to build sustainable communities. Our key stakeholder groups and how we engage with them are shown below.

Our stakeholders	How we engage with our stakeholders
Employees	• Engagement through annual conferences, town halls, workshops, team meetings and other work, social and community events • One Family intranet and regular communication emails • Annual Engagement Surveys
Customers	• Communication and face-to-face meetings • Annual Voice of the Customer survey engagement
Suppliers and workers	• Communication, meetings, training and conferences • Capacity-building programs for factory managers and workers • Online Vendor Portal and Sustainability Resource Center for suppliers
Investors, shareholders, analysts and creditors	• Communication, meetings, briefings and investor conferences • Investors, shareholders and other stakeholders can request information and feedback through our website – ir@lifung.com
Industry and trade organizations, peers and partners	• Dialogue and meetings • Industry collaboration initiatives
Non-governmental and community organizations and partners	• Dialogue and meetings • Partnership initiatives and projects in factories in the supply chain and in communities
Government	• We engage government through industry groups, such as the HKGCC and ICC[4], and through the direct dialogue of our executive leadership
Academia	• We engage academics, administrators and students at MIT, Stanford, HKU, HKUST, Chinese University, SMU, and CEIBS[5] regularly and through events.
Media	• Communication, meetings, briefings and press conferences • Media can request information and feedback through our website – media@lifung.com or via our PR agency

Further information is outlined in the *Our Commitment to Good Governance, Our Supply Chain, and Our People sections* and the *Li & Fung's Shareholders' Communication Policy*[6]. We welcome feedback on our Sustainability Strategy, stakeholder engagement, material issues and reporting at ir@lifung.com.

4 Hong Kong General Chamber of Commerce, International Chamber of Commerce, etc.
5 Massachusetts Institute of Technology, Stanford University, The University of Hong Kong, Hong Kong University of Science and Technology, The Chinese University of Hong Kong, Singapore Management University and China Europe International Business School.
6 https://www.lifung.com/wp-content/uploads/2018/03/Shareholders-Communication-Policy-20160113-Eng.pdf

Engaging a Key Stakeholder – Voice of the Customer

As an example of deeper engagement with one stakeholder group, – our customers – we conducted our second, annual, Voice of the Customer (VoC) survey in 2018, targeting 12 key customers in the apparel, accessories and hardgoods sectors.

For the surveys, sourcing team leaders interview our customers' management representatives to understand their perception of our service quality. Topics include both operational and strategic issues, such as product development, material sourcing, sampling, costing, factory sourcing and sustainability, order management, systems and product testing, communications and strategic business alignment. Our sourcing teams also conduct internal assessments of the relationship. Survey scores are shared with business teams with summaries highlighting positive feedback and areas for improvement. Each business team then develops a corrective action plan with areas to address such as talent development, structural or process changes and recalibration, or enhanced collaboration with customer teams.

The 2018 results show that customer perceptions continue to vary and there are areas to reinforce and continue and others requiring improvement. Headline feedback included the importance of ensuring a "cost and speed fit" to support customers to navigate retail challenges and identified the opportunity to enhance the consistent delivery of sourcing solutions across our global organization to meet increased customer demand for product and material development.

Our Material Issues

At Li & Fung, engaging our stakeholders along the value chain is inherent in how we do business. To determine our material issues, we consider:

- the views of our stakeholders, which are shared though a variety of channels
- stakeholder perceptions of, and expectations for, our performance
- risks and opportunities to our business and that of our customers
- best practice within our industry
- parameters assessed by investors and by sustainability raters and indices

We will continue to review the priorities of our stakeholders and refine our material issues over time, as they drive our Sustainability Strategy. Below we identify our relevant material issues, aligned with our strategy pillars and six UN SDGs, and our material governance parameters that guide and reinforce all that we do.

Governance parameters

Values and ethics	Transparency
Independence and diversity	Economic performance and market presence
Anti-corruption	Risk and compliance management
Privacy and data protection	Stakeholder engagement

Li & Fung Sustainability Strategy pillar and relevant UN SDGs	**Material issues**
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. 3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	Human and labor rights • fair compensation, working terms and benefits • equal opportunities and non-harassment • diversity and inclusion • health and safety and wellbeing Talent attraction and retention Engagement Training and development
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. In 2018, our strategy for supply chain sustainability focused on three priority areas – human rights, safe workplaces and environmental resilience. 1 NO POVERTY 3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Human rights • equal opportunities and non-harassment • fair wages, working terms and conditions • freedom of association and social dialogue • freely-chosen employment Safe workplaces • occupational health and safety • fire and building safety • educated and engaged workers Environmental resilience • climate change • material/resource management and efficiency (inputs, energy, water, etc.) • chemical management and detox • air and GHG emission management • wastewater management • waste management and recycling • reuse and closed loop Product • innovation and circular economy design • sustainable, reduced impact design and product/packaging • responsibly-sourced materials (biodiversity, animal welfare and no Uzbek cotton, conflict minerals, child labor or modern slavery) • traceability • health, safety and quality

Li & Fung Sustainability Strategy pillar and relevant UN SDGs	Material issues
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. 	Employee engagement and volunteering Community investment, engagement and development Stakeholder and industry collaboration and engagement
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. 	Environmental awareness and action Sustainable design, construction and renovation Climate change Air and GHG emission management Material/resource management and efficiency (inputs, energy, water, etc.) Waste management and recycling Sustainable/responsible procurement

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[1] Worldwide

16,840

Employees Worldwide by Gender

Female **52%** Male **48%**

Management Team by Gender

Female **44%** Male **56%**

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. We support a high-performance culture where our people are motivated to deliver exceptional client service.

Our business is built on long-term relationships within teams, comprised of 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, our Logistics business received the "HR Team of the Year – Gold Award" and the "HR Innovative Team of the Year – Bronze Award", at Human Resources Magazine's HR Distinction Awards 2018.

As we progress along our transformational journey to be the industry leader in building the digital supply chain of the future, we are and will continue building the leadership, talent and capabilities to support the realization of this vision. This means developing a world-class learning organization focused on digital transformation and change management. Our goal is to be the merchandiser of the future that attracts the best and brightest, diverse, global talent in design, product development, merchandising and account management. As a result, our senior management and teams around the world not only bring a vibrant mix of nationality, ethnicity and culture, as well as professional and life experience, embracing differences in gender, race, ethnicity, sexual orientation, generation and ability, but are united by our common purpose.

The goal of our Three-Year Plan (2017–2019) is to build the supply chain of the future to help our customers navigate the digital economy and to make like better for a billion people in our supply chain. We want to create shared value for our customers, suppliers, colleagues, partners and communities where we operate. In our common pursuit of shared value, our people strategy focuses us on making progress towards the UN Sustainable Development Goals (UN SDGs) of Good Health and Wellbeing, Gender Equality and Decent Work and Economic Growth.

1 99% of our full-time employees are on permanent or other contracts. For the 67% that have full-time, permanent contracts, 48% are female and 52% are male, and for the 33% on full-time, temporary or other contracts, 60% are female and 40% are male. For part-time employees on permanent contracts, 84% are female and 16% are male, and for those on other contracts, 57% are female and 43% are male.

Our Values

Our values form the basis of our culture, business strategies and 113-year old 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. Through our One Family internal communications platform, we focus on promoting our values and our people continue to share stories, videos, photos and blogs on what these values mean to them, and how they integrate them into their lives and work.

We have continued to expand our brand beyond our corporate website through LinkedIn, Instagram, YouTube and WeChat. Over 93,000 people follow our LinkedIn page and over 23,000 directly engaged with our posts on average in 2018. We have over 2,000 Instagram followers and for WeChat, we have close to 10,000 followers with an average engagement of 1,000 per post. 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 learn more about our values and our brand.

Gender Pay Ratio

An important part of nurturing diverse talent for the benefit of our people and our business is our belief in equal pay for work of equal value. This drives us to transparently address gender pay and to make progress in our support of the UN SDG for Gender Equality. We first reported gender pay ratios for our Company as a whole and by employee level in 2017. In 2018 and based on median annualized salaries for all professional colleagues, woman earn 13% more than men overall, compared to 11% in 2017. Among senior and middle management, women earn 8% less than men, compared to 11% in 2017.

You can read more of our workforce data on our website.

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

Higher median annualized salary for female colleagues by

13%

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.

We see diversity as a source of strength and pride. Our over 16,800 employees 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.

We proudly launched our Diversity & Inclusion initiative in 2017 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. You can read more overleaf.

Project WoW (Ways of Working) continues to transform our workplaces in support of our Three-Year Plan. This is achieved by creating environments that facilitate speed in work processes, communication and decision making, spur innovation in spaces conducive to imagination and experimentation, and adopt technologies that connect our people and our customers. We have empowered our people to promote this cultural shift with local WoW Change Committees and Advocates who consult their colleagues on the overall layout of the spaces and ways to adapt to the new WoW open-office work environments. In 2018, we transformed two and half floors in our largest office building in Hong Kong, which is in addition to previously converted offices in Jakarta, Qingdao, New Delhi, Seoul and Singapore. In 2019, we plan to renovate our offices in Dhaka, Ho Chi Minh and Shanghai under our WoW principles.

Each year we hold multiple events to share our strategy and encourage dialogue and innovative thinking across our 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 direct engagement with our CEO and senior leaders, we also held 17 meetings involving 5,175 senior managers and 51 town halls for 12,934 colleagues in multiple locations to discuss our business priorities and performance.

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 app by 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 2018, One Family received 13.1 million pageviews with almost 9,000 colleagues accessing it daily, an increase of 6% from 2017.

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. Each year, we also recognize our peoples' work anniversaries with Li & Fung of between over 5 to 45 years through our Long Service Awards. In 2018, 19% of our colleagues have worked with us for 10 years or more with 111 colleagues having over 30 years' service or more — a remarkable achievement.

10+ years

19%
Colleagues
with **10+ years service** in 2018

Diversity is the driver of innovation. Our colleagues represent a diverse population that embraces differences and similarities. We are focused on creating shared value with our colleagues, customers, suppliers and communities.

Roger Young
Chief Human Resources Officer

Diversity and Inclusion

As a global business, we recognize that it is critical to understand, embrace and operate in a multicultural world – both in our supply chain and in the workplace. Our global Diversity and Inclusion (D&I) initiative emphasizes our culture of respect for all individuals and of valuing our differences and similarities. Our objective is to educate and create awareness among our colleagues, creating a collaborative working and learning environment.

We believe the workplace is a laboratory for change and a harbinger of the world of tomorrow. Equality and openness enables more diverse and creative thinking and welcomes wider communities of talent to reach their potential, leading to better performance outcomes in business. We are privileged to have a culturally-rich mix of people and honored to serve, support and provide services to a diverse community, as we strive to make life better for a billion people.

At Li & Fung, diversity is an all-inclusive concept. We understand that diversity is not only about the obvious differences, but those 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.

Some of our highlights in 2018 include:

- Welcoming 28 "D&I Ambassadors" across our company who came together to communicate and diligently advance our diversity journey and build our practices of D&I
- Our ongoing monthly articles on One Family, accompanied by informative videos to engage and foster an environment of learning and open communication about inclusion. In 2018, we covered issues such as bringing your whole self to work, from unconscious bias to conscious inclusion, mental health awareness, celebrating pride, linguistic and cultural diversity, and addressing sexual harassment and generational diversity in the workplace
- 55 workshops on topics such as Unconscious Bias and LBGT+ to open the doors of communication
- A short video featuring colleagues sharing personal narratives on "bringing their whole selves to work"
- Strengthening our network and exchanging best practices by partnering with The Women's Foundation, Community Business and Marriot Corporation in Hong Kong
- Our '*How do you see the World Photo Challenge*'. Close to 90 colleagues shared original photographs that captured "What does Inclusion mean to you?". 12 photos were selected to feature in our 2019 Li & Fung Digital Calendar

In 2019, D&I will continue to be a strong focus as we hone in on key issues that are impactful to our global community.

78%

response rate

an increase of 4%

Employee Engagement Survey

In 2018, we again launched our global employee engagement survey. Our response rate was 78%, an increase of 4% over 2017 and overall results indicated solid support of our culture with progress in our leadership communication strategy to employees on a consistent basis. Our engagement index increased by 3% and the ratings continued to increase for the following questions: "Our senior leadership regularly provides a clear picture of Li & Fung's business and financial performance" increased by 13% and "My Manager routinely provides feedback that helps me improve my performance" was up by 6%.

Our employees' responses indicated other areas of strengths including: "high ethical standards", "keeping all employees updated and informed" and "the Company treats everyone with dignity and respect". The survey also revealed progress in work-life balance and on management providing feedback to help employees enhance their performance. This is particularly encouraging as these were areas where action was taken by senior leaders as a result of previous survey results and focus group feedback.

Other areas raised in the 2018 survey include acting and listening on employee's suggestions and ideas and the long-term development of our people. We followed up with all of our senior leaders to communicate the feedback and develop action steps to manage the changes needed. Focus groups were implemented to listen to our colleagues and act on the important issues raised. As a result of the findings and feedback from the survey and the 14 facilitated focus groups involving over 140 colleagues of all levels, we have implemented or expanded the following initiatives:

- Wellbeing workshops and health challenge programs
- On a monthly basis, leaders across business units share feedback in newsletters, coordination meetings and video conferences
- Leadership sharing series, with 16 leaders across the business sharing personal stories and tips on a weekly basis to help develop our next generation of leaders. These stories are compiled in a book entitled, "Leadership is a journey", which has been distributed across the company
- A review of the roles and responsibilities of each of our finance and accounting teams to bring clarity and focus to their remits and job scope
- Happy Hours for teams and offices have changed from monthly to weekly with over 1,700 held in 2018, providing opportunities for relaxation, mingling and fun. More social activities have also been held during weekends to enhance team building, ranging from hiking to volunteering

In 2019, we will again implement our global employee engagement survey combining consistent questions from the previous survey, with several new questions on our colleagues' reactions to changes in 2018. This will enable us to analyze trend variations and act on the feedback. Continuing to listen and respond to our employees is testament to our culture of employee engagement.

Enhancing Wellbeing

The health, safety and wellbeing of our people is important and guides 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 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 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.

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. 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 around 2% of our employees have joined unions globally. For operations with unionized workers, consultations with trade unions are held at a minimum annually and the minimum notice period regarding operational change is 30 days.

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 2018[3], there weren't any such cases as outlined in 'Our commitment to good governance' section.

In 2018, five issues were raised through our grievance mechanism in the UK and one in Malaysia. In the UK, three related to issues around compensation above or beyond contractual requirements, one over the redundancy process and another was regarding a case of perceived discrimination that was fully investigated and found to have not been a case. In Malaysia, a case of unfair dismissal and settlement was raised by a claimant that had received prior warnings related to violations of our Code. A settlement, equivalent to four months of the claimant's last salary as per the local legal requirement, was agreed with no admission of liability.

Our commitment to operating our business ethically and with integrity was reinforced with the establishment of a Business Ethics and Integrity Education Working Group in 2017. This year we expanded our training programs and launched new Business Ethics and Integrity workshops, involving 133 of our senior leaders globally who believe that business ethics gives us a competitive advantage. Through presentations, case studies and group exercises, our leaders explored ways to steer clear of "high risk" areas involving various integrity issues that could have a negative reputational impact. For global colleagues of all levels, the "Do the Right Thing" Business Ethics workshop and Train-the-Trainer programs were rolled out

Having greenery in our office is one of our initiatives to enhance our peoples' wellbeing.

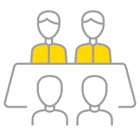
2 International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the UN Global Compact's 10 Principles and the UN Declaration of Human Rights.

3 The resolution of the grievance reported in Annual Report 2017, involving a claim by a temporary employee in the United States that disabilities could not be accommodated for a particular function in the working environment, has yet to be determined by the Equal Employment Opportunity Commission.

Business Ethics & Integrity Program since 2017

22
Locations

91
Certified trainers



4,038
colleagues and

133
senior leaders
attended 110 workshops

in 22 locations. Our 91 certified trainers held a total of 110 workshops and reached 4,038 additional colleagues since 2017.

To continue to support our senior leaders and colleagues in building a sustainable culture of integrity, we also launched a new module on our Code of Conduct and Business Ethics. The course has been designed to equip all our colleagues with the skills to apply our policies into daily practices. Going forward, mandatory business ethics training will continue to be rolled out, along with refresher courses to reinforce our high expectations for ethical behavior in all business activities.

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. All our logistics facilities have implemented formalized occupational health and safety (OHS) management systems with OHSAS 18001 OHS Management System standard certifications[4] covering five facilities in Hong Kong and one each in Shanghai, Singapore and Thailand. Our DC in Singapore also holds the BizSAFE STAR Certificate from the Singapore Workplace Safety & Health Council and our facility in Thailand was recognized for the "Zero Accident – Silver Award" by Thailand's Institute of Occupational Safety and Health for the third year in a row. Furthermore, three of our DCs in Hong Kong, Malaysia and Thailand maintain Hazard Analysis Critical Control Points (HACCP) certification.

Across our operations we organize 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 vaccinations are provided. In 2018, there were no fatalities in our workplaces globally. We continue to work on being able to report on OHS statistics across our global operations.

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. In 2018, we initiated a holistic wellness learning initiative, known as 360 Wellness, that aims to develop colleagues' mindfulness, enhance employee engagement, improve productivity and create a culture of health and performance. Colleagues with a high level of wellbeing have proven to be more adaptable and report higher levels of performance in their job and within our organization. We have launched a number of Lunch and Learn sessions on how mindset and attitude, as well as relationships and communities, can support wellness in the workplace and how to develop skills to foster positivity and wellness.

Visit our website to read about our annual 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. Since 2017, we have been significantly strengthening our presence on LinkedIn, Instagram, Facebook and WeChat to help us engage the best local and international talent. We've been using LinkedIn as part of our recruitment strategy since 2015, and in 2018 we received 28,350 job applications through the platform. In 2018, 2,549 professional staff were newly hired, representing an average new hire rate of 15% across the Company. The main channels for new hires included 36% from internal transfers or applications, 26% from referrals,15% from recruitment agencies and 23% from social media and other channels.

4 A total of four OHSAS 18001 standard certifications are held covering eight DCs. With the strategic divestment of Li & Fung's three product vertical businesses, Furniture, Beauty and Sweaters, as announced in December 2017 and completed in April 2018, the reporting scope for our Continuing Operations excludes the certifications associated with Beauty's manufacturing facilities.

In 2018, we started incorporating Artificial Intelligence (AI) as part of our recruitment strategy. Through our HireFit predictive model, we have improved both the efficiency of the process, freeing up valuable resources within our human resources team, and the experience for candidates. You can read more below.

In addition to attracting external talent, retaining existing talent is a priority, particularly within an industry that is experiencing widespread and systemic change. In 2018, our voluntary and involuntary turnover rate among professional staff was 15%, which is slightly higher than the APQC Benchmark[5] Industry Target of 14% for large, complex, multinational companies. We are proud to share that our retention rate after maternity leave is 75%.

We encourage internal transfer opportunities for our people who wish to enhance their skills or develop new competencies. As part of our ongoing talent development initiatives, we also encourage cross-functional and cross-regional moves to prepare our emerging leaders to take on leadership roles in the future.

You can read about our employee data and voluntary and involuntary turnover rates on our website.

Voluntary and Involuntary Turnover Rate

Overall

15%

HireFit uses our leadership competency model assessment framework coupled with a uniquely customized AI system.

HireFit uses an AI-enhanced online interview that predicts success by analyzing hidden patterns in people's language. This system uses cutting-edge advances in natural language processing and computational linguistics. Instead of hour-long assessment centers and a battery of tests, HireFit achieves a deep look into a candidate's personality, skills and "fit" by having candidates complete a survey of three, open-ended questions (for which there is no right or wrong answer) as well as a personality assessment.

HireFit does not disadvantage participants because of English language proficiency, culture or gender, enabling the recruitment process to be less susceptible to human bias. We also designed the administration of HireFit to be centralized and automated, freeing the HR team and enabling us to efficiently reach candidates on a global scale rather than relying on face-to-face meetings.

Since implementing HireFit, we have eliminated paper assessments in our recruiting process, reducing the time involved for candidates by 30 minutes to an hour, depending on the role being assessed. The elimination of paper assessments has also saved 1,000 working hours for our HR team, enabling them to undertake more meaningful, value-added tasks.

Another benefit for our new hiring strategy has been an improved experience for candidates. A total 548 applicants have completed the HireFit digital interview in 2018 and it was rated positively by 90% of the 477 candidates who rated the system, giving the experience a rating of 4 or 5 out of 5.

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

Performance Management

In January 2018, we updated our Performance Management program to better align with the needs of the business, introducing semi-annual review periods and a culture of real-time feedback. The program was partnered with our new human resources information system, Workday, that went live in September of 2018. The implementation of Workday supports our goal of bringing about a culture of frequent conversations and review of individual performance, attainment of goals, development and growth.

A Culture of Learning

We believe building a strong culture of learning plays a vital role in the sustainable evolution of our Company. To support our people to leverage their talent and develop their skills and competencies, we provide development programs that focus on leadership, broadening professional knowledge and technical skills, and enhancing productivity.

In 2018, the average number of training hours per colleague was 4.9 hours. On average managers attended 4.4 hours of training, with women receiving 4.8 hours and men 4.1 hours of training. Employees attended, on average, 4.8 hours of training, with women receiving 4.9 hours and men 4.7 hours of training.

The reduction in the average number of formal training hours from the average in 2017 of 7.8 hours, reflects how corporate learning trends are evolving to embrace other learning channels. Our micro-learning options provide a more targeted, flexible approach that increases the efficiency of our learning programs, thus decreasing the number of hours each employee needs to spend on our learning platforms to receive the same or greater benefit as in the past.

We are increasingly providing opportunities for Omni Learning by using flexible learning channels. Our new Workday Learning Platform enables colleagues to learn at their own pace on flexible schedules with over 1,851 learning programs and 16,892 online learning resources, including apps, e-books, videos, webinars, podcasts and more. Topics cover career development, skill training and personal development. The platform also encourages a culture of social learning by allowing learners to upload and share their own learning initiatives. In 2018, 12,502 of our employees attended and/or accessed our learning resources.

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 2018, more than 640 of our global team participated in leadership development training.

We implement our tailored leadership roadmap for different leadership levels, with the support of the Fung Academy. The Leadership Essentials (LE) program focuses on building core leadership competencies among high potential junior managers. From April to December 2018, 24 LE sessions were delivered across ten cities with 512 participants. To extend the reach of the program, a total of three train-the-trainer workshops were held in New York, Shanghai and Shenzhen to train our human resources colleagues to deliver the program.

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. Over 1,500 of our leaders have now participated in the program in over 80 sessions. In 2018, we had 515 participants attending one of the 39 sessions that were held in 13 locations[6].

You can learn more about our extensive learning programs and how we develop our leaders on our website.

6 LSLO workshops were held in Ho Chi Minh, Hong Kong, London, Manchester, Manila, New Delhi, New York, Norderstedt, Seoul, Shanghai, Shenzhen, Singapore and Taipei.

Innovation and Experimentation Programs

Advancements in technology are disrupting our industry, creating new opportunities and uncertainties about the future business landscape. Innovation and experimentation enable us to explore the future to uncover new value and foster an innovation mindset. In 2018, we implemented the following initiatives that are fundamentally changing how we collaborate with each other and with our partners along the value chain:

#That'sTheIDEA Program

An innovative and engaging board game was launched as part of the #That'sTheIDEA Program to promote a "growth and problem-solving" mindset through the use of a practical, six-step problem solving model. Using gamification, colleagues have fun while collaborating on real-life business cases. 322 colleagues from seven different locations participated and learned how to become solution providers for our customers. We have also rolled out a train-the-trainer workshop for 43 qualified trainers to date who will continue this program in 2019.

Explorium

Explorium is a place and a program for the Fung Group and its companies to lead the charge in shaping the future of our industry through collaboration with partners sharing an interest in disrupting global supply chains. We are experimenting with new business models, technologies and trends to co-create a more sustainable future. Expanding beyond Shanghai, in 2018 we were excited to launch Explorium in Hong Kong.

Pilot2Scale

Our Pilot2Scale program brings local, small businesses into our ecosystem to help solve real problems across our business. Leveraging a Lean Startup process and methodology, along with customized tools and templates, Pilot2Scale drives the process from initial demo to the first 'GoLive' prototype, to ultimately scaling the new solution. In 2018, we worked on five Pilot2Scale projects, including the development of a Smart Quality Assurance/Quality Control tool with natural language recognition and truck route optimization using AI.

Smarter Threads

In 2018, we began experimenting with an internal knowledge platform on advanced materials, curated by leading trend analysts and powered by a community of designers, material specialists and merchandisers. Smarter Threads explores advanced materials like e-textiles, sustainable fabrics and active heating fabrics that have an exciting range of new applications, which are increasingly demanded by the market and embraced by consumers. The platform enables Li & Fung employees to learn and experiment with these advanced materials to create innovative solutions for our customers and to deliver products that are designed for manufacturing.

The Kitchen

Our award-winning[7] platform, The Kitchen, continues to engage colleagues to solve strategic business challenges through innovative methods, such as crowdsourcing. In 2018, The Kitchen hosted nine online challenges engaging over 2,100 people to uncover ideas for products, process improvement and other continuous improvements. These included a series of challenges hosted in Cantonese to engage workers in our logistics warehouses around eliminating waste. Our work on The Kitchen has been featured by our technology partner, Spigit[8].

You can read more about our culture of experimentation on our website.

Explorium

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

8 https://media.featuredcustomers.com/CustomerCaseStudy.document/spigit_li-fung-limited_None.pdf

Our Supply Chain

We are building a digital platform with end-to-end visibility and transparency for customers and suppliers.

Our Supply Chain

We are creating the supply chain of the future by developing new and innovative ways to deliver end-to-end supply chain and logistics solutions for global brands and retailers.

Top five sourcing countries

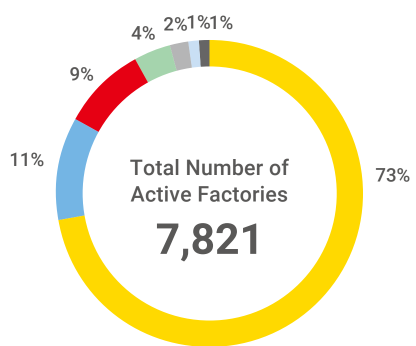
- China
- Vietnam
- India
- Bangladesh
- Indonesia

We design, source and deliver a diverse range of products – including apparel, accessories, furniture and household products, among others – from a network of 10,000 suppliers in over 50 production countries, to over 2,000 customers[1] globally.

Our goal is to make life better for a billion people along the supply chain. We are enhancing visibility into our supply chain through digitalization and collaborating with suppliers and other industry stakeholders to improve industry standards and practices at scale. Our intended impact is to have all the products that pass through our supply chain, regardless of the end customer, production country or factory, made in safe workplaces that meet core social and environmental standards.

Our key sourcing countries by business volume remain China, Vietnam, India, Bangladesh and Indonesia. In 2018, we sourced from 7,821 factories with 1,324 factories contributing 80% of the value of goods shipped to our customers. These 1,324 factories represent approximately 17% of our total active factories. Despite recent trade developments, our overall factory churn rate decreased from 30% in 2017 to 26% in 2018, and we maintained long-term relationships (five years or more) with approximately 50% of our suppliers, reflecting our belief that through longer-term relationships we can enhance sustainability performance.

Number and Percentage of Active Factories by Region



China	5,694	73%
South Asia	885	11%
Southeast Asia	696	9%
Europe and Turkey	328	4%
North Asia	120	2%
Americas	55	1%
Others	43	1%

1 Customer data has been adjusted from the Annual Report 2017 as a result of the strategic divestment of our three product vertical businesses, Furniture, Beauty and Sweaters, which, as Discontinued Operations, are no longer part of our reporting scope.

Our Approach

The diversity of our supply chain and variation in customer requirements makes adopting a single approach to managing risk difficult. We accommodate twelve different social and/or environmental compliance standards and over 183 customer-specific programs. Within this diversity, three core elements remain at the center of Li & Fung's sustainability and compliance program.

Identifying, benchmarking and mitigating risk

Li & Fung monitors compliance with international and national standards related to: building and fire safety, occupational safety and health, human and labor rights, business ethics and transparency, and environmental compliance and performance.

It is increasingly understood that audits alone do not yield a sustainable supply chain. In fact, duplicative audits can divert a factory's time and resources to hosting and managing audits, away from activities that drive improvement. We are working to reduce audit duplication to shift resources to the sustainable improvement of issues and empowering suppliers to take ownership of their factory's improvement.

Collaboration with our supply chain partners

Despite current geopolitical turbulence, an overarching trend for collaboration across industries and governments continues, understanding that the most significant challenges cannot be solved individually. Companies have made commitments to the Paris Climate Agreement, the UN SDGs, and other leading frameworks which align the long-term interests of business and public policy. Likewise, industry organizations such as the Sustainable Apparel Coalition facilitate collaboration among companies in the apparel and footwear industries. By working toward a common goal of a sustainable future, collective approaches to address global risks in the supply chain furthers improved social and environmental conditions and performance for all. Li & Fung has inked several such partnerships to support collaboration, ensure alignment of goals and approaches, and leverage an industry voice to better drive progress. More information on how we collaborate is provided later in this section.

> The supply chain of the future will be digital, smart and connected. This creates challenges and opportunities for those in the supply chain.
>
> **Spencer Fung**
> CEO

Focus on digitalization

Connected, digital supply chains are, by nature, more transparent. This facilitates greater visibility to supply chain partners further upstream, with the potential to identify and influence the practices of these partners with respect to human rights, workplace safety and environmental performance.

In addition, digitalization results in larger volumes of more accessible data. As supply chains become increasingly complex, as a result of trade barriers and sourcing in frontier markets, and deep, with visibility further upstream, technology has become increasingly important in the effective management of large supply chains.

Tools such as predictive analytics can identify the nature and level of risk at a supplier level to support more targeted and accurate assessments, interventions and capacity-building programs.

Global Fashion Agenda

The Global Fashion Agenda (GFA) is one of the most significant fashion and supply chain initiatives driving sustainability in fashion, with a mission to "make sustainability fashionable" and "ensure prioritization of sustainability at a highly strategic level"[2]. Through industry-wide collaboration and leveraging the latest technologies, it aims to create solutions for our deepest challenges and in doing so, build a better, more sustainable fashion industry.

As one of nine members of the organization's select Steering Committee and representing the Supplier caucus, Li & Fung provides leadership for change among its peers. The GFA's ambitious CEO Agenda, published in early 2019, outlines eight sustainability priorities to address, through specific company programs and collective industry action:

1. Supply chain traceability
2. Combatting climate change
3. Efficient use of water, energy and chemicals
4. Respectful and secure work environments
5. Sustainable material mix
6. Circular fashion system
7. Promotion of better wage systems
8. Fourth industrial revolution

These priorities are supported directly by the CEOs of the member companies, ensuring alignment of sustainability and business goals. Our aim is that through continued engagement with GFA to implement the CEO Agenda, within our supply chain and across the industry, will we collectively achieve transformational change.

Circular Economy

The circular economy is a key sustainability priority identified by the GFA and other sustainability leaders. The Ellen MacArthur Foundation is the leading advocate for new business models that incorporate circular economy principles. Li & Fung is a member of the Ellen MacArthur Foundation's Make Fashion Circular initiative, which provides member companies with leading insight and a platform for collaboration and joint action to create the circular business models of the future. In 2019, we will collaborate with Make Fashion Circular to build the evidence base to promote new business models that increase the reuse of clothing, with a focus on the scalability potential of these models.

Spencer Fung, our CEO, was speaking about the initiatives for building a better and more sustainable fashion industry at the Copenhagen Fashion Summit.

2 https://www.globalfashionagenda.com/mission-strategy/#

Managing Risk and Furthering Compliance in our Supply Chain

Structure and Governance

Li & Fung is committed to the principles of good governance. Our Corporate Sustainability & Compliance (CSC) team sits at the Fung Group level and maintains its independence from other external and internal stakeholders by reporting directly to the Office of the Group Chairman. Further oversight is provided by Li & Fung's Risk Management & Sustainability Committee (RMSC), a Board-level committee, which is led by the Honorary Group Chairman and meets quarterly to review the Company's management of supply chain and other risks and provide recommendations for improvement, as well as report on performance to the Board.

CSC has over 50 employees based in 14 countries across the globe, from North and Central America to Europe and the Middle East to Asia, with a central governance team based in Hong Kong.

Code of Conduct and Onboarding

Managing supply chain risk starts with the Li & Fung Supplier Code of Conduct (Code). The principles enshrined in the Code are grounded in the United Nations Universal Declaration of Human Rights and the International Labour Organization (ILO)'s 1998 Declaration on Fundamental Principles and Rights at Work, as well as local law. We continue to update our Code in line with emerging requirements, including strengthened standards on modern slavery in accordance with the UK and Australia Modern Slavery Acts and the California Transparency in Supply Chains Act.

All suppliers must commit to adhere to these minimum standards as a condition of doing business with us. The Code is available to suppliers in multiple languages, including Guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations.

We believe that rigorous factory onboarding is a crucial step in mitigating risk. We offer regular onboarding training to new factories and our own business units to ensure they understand both the Code as well as the consequences of non-compliance.

Auditing

Compliance against the Code is assessed by one of our designated third-party audit firms. All of our direct suppliers (tier 1) are audited on a schedule, which varies according to their level of risk. Audit data is then combined with industry and country data to provide an overall understanding of risk. We audit beyond tier 1 when requested by a customer or in high risk instances such as child or forced labor.

The performance of our third-party audit firms is monitored by a robust system of key performance indicators covering areas such as integrity, performance and accuracy. Wherever possible, we use our rich audit data to compare audit findings, measure performance and provide feedback to audit firms on missed findings or unidentified risk as part of our overall assurance program. We also rotate audit firms who conduct our onsite audits to maximize the various strengths of each firm and to reduce the risk of corruption.

Li & Fung also accepts audits conducted against other standards that meet our requirements as part of our audit "equivalency" program. This mutual recognition program has drastically reduced audit duplication and allows supplier resources to be reallocated to the sustainable improvement of critical issues. As part of our assurance program on factories audited against industry standards, we conduct unannounced spot checks on factories, with a particular focus on those with longer approval periods. Spot check ratios are higher in countries where there are increased risk factors (such as a lack of transparency or other key non-compliance issues).

Where data from a spot check suggests critical compliance issues have been systemically missed by an industry standard, we share that information with the audit firm for improvement. Over the year, one particular insight was the payment of excessive recruitment fees, and we advocated for improvement in the way some industry standards are monitoring this issue. In 2018, Li & Fung completed unannounced spot checks in 400 factories across 15 countries.

As part of our commitment to reduce duplicative audits, Li & Fung has been involved in the Social & Labor Convergence Project (SLCP) since 2016 and in 2017, we joined its Steering Committee. The SLCP's aim is to create 'one single assessment for all, more resources and improvements for everyone' through a Converged Assessment Framework (Assessment). The Assessment supports stakeholders' efforts to improve working conditions in global supply chains and allows resources previously designated for compliance audits to be redirected toward the improvement of social and labor conditions. We engaged three of our suppliers in Guatemala, Cambodia and China to join the pilot of the Assessment.

In addition to converged assessments, the future of supply chain due diligence will rely on real-time data and sophisticated analytics to drive quicker, smarter decisions. In 2018, we formed a partnership with Elevate, one of our third-party auditing firms. This partnership, known as LF.VATE, supports these goals for the supply chain by providing our suppliers with benchmarking, risk assessment, and the support and guidance they will need to drive improvement.

The diversity and breadth of our supply chain means we have multiple sources of compliance data and information available. This means we can make informed and quick decisions and move production to suppliers who have greater capabilities and a lower risk score.

This ability to access and analyze multiple data points, provides a much fuller picture of our compliance landscape. We are continuing to pair this data with new technology and advanced algorithms to better predict the likelihood of risk before it occurs and take steps to prevent it.

Since 2014, the Observer Development Program remains an important part of managing supply chain risk with our quality assurance and quality control (QA/QC) teams identifying critical red flags when visiting factories and immediately raising them to the Corporate Sustainability & Compliance team for action. As of the end of 2018, 85% of our QA/QCs have been trained and 43% of factories in our supply chain were regularly observed.

Refer to our website for further detail on the Observer Development Program.

Rating Suppliers

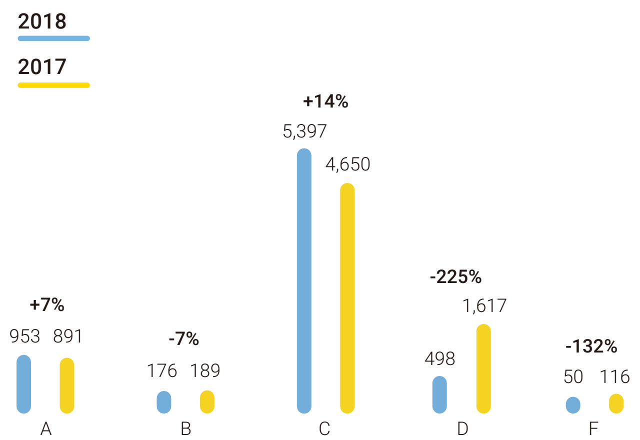
Li & Fung measures supplier performance through our internal rating system. Factories are approved for a period of time (approval period) depending on this rating. When non-compliances are identified, factories must commit to remediating the issue through a corrective action plan, with varying timelines from three to six months.

Criteria for rating factories are as follows:

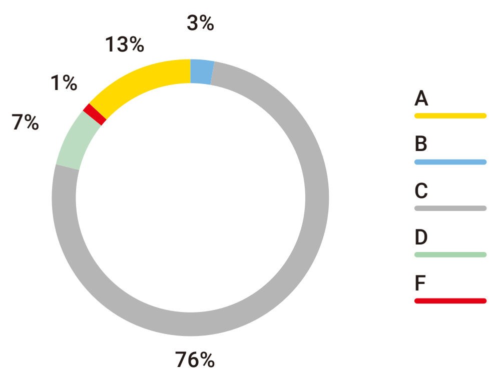
- Both A- and B-rated factories may have one or more non-critical issues identified. A-rated issues are "approaching compliance" and those that are B-rated have "improvement required"
- C-rated factories have one or more critical issues identified. Generally, C-rated issues are identified issues which require financial investment or a longer period to remediate and sustain
- D-rated factories have one or more severe issues identified
- Factories that have one or more zero-tolerance issues that have not been systematically remediated are discontinued, and business is terminated with a responsible exit plan

In 2018, we saw dramatic improvements to the overall rating performance of our factory base. Overall our ratings of A and B rated factories remained static. A positive result of our strategic factory rationalization, the implementation of our remediation program, and our more robust entry requirements for new factories, has been a reduction in the number of factories in the D and F categories. This reduction in D-rated and F-rated factories resulted in the 14% increase in C-rated factories.

2017/2018 Rating Trends



2018 Rating Distribution



Continuous Improvement

Since launching our remediation program in 2017, we continue to observe improved performance in our supply chain. While the specific remediation steps vary according to the severity of the issue, we have evolved our remediation guidance in line with the UN Guiding Principles on Business and Human Rights.

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 process and verify the remediation of issues.

After a final audit, the factory 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.

Refer to our website for a diagram of the key elements of our audit, remediation and continuous improvement process.

Regional and Country Risks

The use of aggregated audit and incident data gives us a bird's eye view of risk according to country and region. Some of the challenges identified in 2018 are listed below. Our risk and compliance management process focuses on proactive identification of non-compliances, capacity building and industry collaboration, as well as remediation to address these challenges.

- In China, there remain challenges relating to the payment of social security and other legal benefits to workers, as well as workplace safety (i.e. incorrect use of Personal Protective Equipment (PPE) and chemical management). China is also a key country for excessive overtime, transparency and integrity issues.

- In South Asia, workplace safety, including electrical, fire and building safety, as well as overtime are priorities we focus on. While Bangladesh showed improvement in workplace safety, non-compliances related to human and labor rights, including industrial strife and excessive overtime remain challenges that we continue to address

- In Southeast Asia, similar to China, there remain challenges related to the payment of social security and other legal benefits to workers, as well as workplace safety (i.e. incorrect use of PPE and chemical management)

- In Turkey and the Middle East, challenges related to the Syrian refugee crisis and recruitment fees paid by migrant workers continue. In Jordan, we participated in the Better Work Program which negotiated a "no fee charging" policy for workers. Audits continue to show workplace safety risks related to the incorrect use of PPE and chemical management

Leveraging Technology to Manage Risk

In 2018, Li & Fung participated in a pilot project with biotech analytics company Phylagen to use microbial DNA analysis for greater transparency in the supply chain. In this trial, Phylagen collected microbial DNA signatures from factories in Bangladesh, China, Indonesia and Vietnam.

A Factory Reference Database was created using dust samples from these factories as well as from two that were not taken from any of the reference factories. The dust particles were taken from indoor surfaces in the production area and from products on the production line. In a blind test, a total of 24 origin assertions on 12 products produced were then tested, with Phylagen accurately identifying their factory origin through the invisible history encoded in the tiny, naturally-occurring dust particles on each product.

Phylagen correctly identified 23 of the 24 origins, for a success rate of 96%. Microbial DNA analysis is an effective way to monitor and test for unauthorized subcontracting. In 2019, we plan to explore opportunities to enhance the methodology and utilize the data to harness more insights, providing information on the social and environmental compliance of factories.

Refer to our website for other examples of how we are using new technology to manage risk.

Grievance Mechanisms

Effective communication and functioning grievance mechanisms are a critical component of ensuring factories achieve sustainable improvement. We encourage grievance mechanisms at a factory level to empower factory managers to better engage their workers and provide support and guidance to ensure these mechanisms are representative, unbiased, and used effectively to remediate issues. Some of our approaches to supporting effective grievance mechanisms are summarized below.

- Li & Fung is a Better Work Partner with 170 factories enrolled in the Better Work program. Better Work's advisory services begin with the development of a Performance Improvement Consultative Committee. This committee is comprised of worker and management representatives and provides a platform for dialogue and improvement which addresses the needs of all stakeholders

- Li & Fung's Social Dialogue program, developed in partnership with Just Solutions, provides factories with training to set up formal grievance mechanisms to enable better communication between workers and managers. You can read more in the "human rights' section

- Due to the serious fire and building safety risks in Bangladesh, we supported the development of the Alliance helpline, Amader Kotha, which encourages workers to engage outside help for critical fire and safety risks. The worker helpline provides support to callers, in partnership with local government, factory managers or brand and retail partners, as appropriate. While the helpline is intended to focus on workplace safety, critical non-safety issues are also reported. Li & Fung is alerted of critical issues in our factories, and we take steps to verify and remediate these cases

Capacity Building and Collaboration to Address Systemic Issues

To support factories in their efforts to improve performance, we offer tailored programs to meet their needs for training and capacity 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. In 2018, Li & Fung developed a new e-learning tool for forced labor and offered training on other key areas such as health and safety and environmental performance.

Refer to our website for detail on these and other capacity-building initiatives, including our Sustainability Resource Center and training for suppliers and the Fung Manufacturing Excellence Program.

Updated Supply Chain Sustainability Strategy

In 2018, we updated the Supply Chain Sustainability pillar of our corporate Sustainability Strategy to align with three focus areas. Our priorities for these areas are outlined below.

Safe Workplaces Human Rights Environmental Resilience

These focus areas have performance indicators that support our contribution to the following UN Sustainable Development Goals (UN SDGs):

Safe Workplaces

192 supplier factories score 100%[3] on worker safety under the Bangladesh Accord or Alliance

Safe Workplaces

We work closely with our suppliers, industry peers and external partners to help ensure safe workplaces for the people who work in our supply chain.

During 2018, we continued as advisors to The Bangladesh Accord on Fire & Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance), to improve factory safety in Bangladesh.

While the Accord and Alliance 1.0 have completed their initial tenure in Bangladesh, we remain committed to the safety of the people who work in our supply chains in Bangladesh. We have joined the Nirapon initiative, which will continue to oversee monitoring and training, supporting factories' continued progress towards improved safety conditions and practices.

Factories in Li & Fung's supply chain under the Accord remediated an average of 84% of findings identified in initial inspections, with 46 factories (26%) achieving 100% remediation. For those under the Alliance, factories remediated an average of 86% of initial findings, and 109 factories (94%) have now achieved full remediation of material findings.

The results achieved by the Accord and Alliance demonstrate the value of collective action. They have driven measurable improvements in safety through in-depth assessment and remediation of findings, supplemented with worker empowerment and worker safety training programs. In recognition of this value, we are scaling the learnings from these organizations to other key countries. In support of this, we partnered with the Dutch Sustainable Trade Initiative and leading brands and retailers to implement the Life & Building Safety Initiative (LABS). This initiative will apply best-in-class assessment, remediation and safety training to additional countries beyond Bangladesh.

3 A score of 100% means that factories have corrected 100% of the material safety findings in their Alliance or Accord corrective action plan, validated through a final inspection by an independent third party.

Human Rights

Our human rights framework is guided by the United Nations Guiding Principles on Business and Human Rights. We define human rights as those identified in the International Bill of Human Rights and the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. These principles, and in particular, their application to national law and real-life contexts, help inform and shape our own human rights policies and processes.

In 2018, we advanced human rights in our supply chain through key areas related to social dialogue, gender, worker wellbeing, modern slavery, child labor and wages.

Social Dialogue

In Bangladesh, we continue to implement the Social Dialogue program, which was developed in partnership with Just Solutions to strengthen the relationship between factory workers and management, through constructive dialogue. Our objective is to create an atmosphere of trust through fostering a sense of cooperation, participation and commitment. Results from phase 1 of the program (Feb 2016 to Dec 2017), showed that the worker turnover rate reduced from 4.13% to 3.16% and absenteeism declined by 8%. Phase 2 of the program launched in July 2018 and has so far trained 305 participants (both middle management and workers) in 11 factories on topics such as freedom of association, participation committees, safety committees and grievance mechanisms.

LF Workers' App

With the joint efforts of the Fung Academy and Li & Fung's Corporate Sustainability & Compliance team, the LF Workers' App is a digital platform that enables two-way communication between workers and factory management and for engaging workers through surveys, announcements and educational content about nutrition, health, finance, personal hygiene and wellbeing. In early 2018, we successfully launched the LF Workers' App in Vietnam to ten suppliers, reaching over 15,000 workers. Just six weeks after its launch, the App garnered over 26,000 screen views. The rollout continues and in October 2018, we targeted Indonesia, inviting over 30 suppliers in Jakarta and over 20 in Semarang to introduce the App in their factories.

Eradicating Modern Slavery

Li & Fung is taking a proactive approach to combatting all forms and enablers of modern slavery, including abusive recruitment practices. At the start of 2018, we undertook a detailed due diligence assessment to better understand our risk in key countries and also reviewed our audit and investigation protocol and related guidance, such as interview guides, to see whether they sufficiently addressed the issue. The due diligence assessment identified China and Bangladesh as our key risk countries for modern slavery due to their geographical breadth and variation in types of exploitation, including forced overtime and state-imposed, debt-bondage. Some countries within Southeast Asia and also in the Middle East and North Africa region were at a higher risk of forced labor because of practices related to the recruitment of foreign migrant workers.

We publish an annual statement[3] on our efforts to address and eliminate modern slavery and human trafficking in compliance with the regulations of the California Transparency in Supply Chains Act (SB 657) and the UK Modern Slavery Act of 2015.

Refer to our website for detail on our activities in 2018 to work towards the eradication of modern slavery. These include: training our colleagues and factories, developing e-learning tools, conducting spot checks of factories, supporting the American Apparel & Footwear Association and Fair Labor Association Pledge on Responsible Recruitment, working with organizations such as the Mekong Club, the United Nations University and Dignex to use mobile-based apps and blockchain to identify forced labor risk and engaging our suppliers in China to pilot a new, modern slavery digital education package developed by the Ethical Trading Initiative and the Swedish-based training company, QuizRR.

Human Rights

15,000 female workers connect to health education on the LF Workers' App

Eradicating Child Labor and Hazardous Forms of Work for Young Workers

Li & Fung's Supplier Code of Conduct prohibits the employment of juveniles younger than 15 years of age, or younger than the age of completion of compulsory education, or legal employment age of the relevant country, depending on which is higher. It also prohibits the Worst Forms of Child Labor as defined by the ILO Convention No. 182.

In 2018, we developed a specialized procedure to improve and standardize internal processes for identifying and remediating cases of child labor, and provided training for our colleagues. As China and Bangladesh remain our highest risk countries for child labor and hazardous forms of work for young workers, we continue to raise awareness of these issues and engage external organizations, such as the Center for Child Rights and Corporate Social Responsibility (CCR CSR) to support our work in these two countries. For example, we work closely with CCR CSR to ensure any cases of child labor are remediated in line with international best practices and the best interests of the child, and we participated in its study of young workers in China[4].

Refer to our website for detail on these activities and our work with UNICEF and Norges Bank on a guidance document to improve the impact of the apparel and footwear supply chains on children's rights.

Gender: Health and Digital Wages

From 2014 to 2018, Li & Fung implemented the HERhealth project in partnership with Business for Social Responsibility (BSR), focusing on health and nutrition, in over 80 factories across Bangladesh, Cambodia, India and Vietnam. Over the course of the project, we have engaged over 175,000 workers, yielding significant results ranging from an overall increase in productivity of 11% in India, to a decrease in female resignations by 28% in Vietnam, to a decrease in women taking sick leave by 4% in Bangladesh.

In 2018, we supported the launch of the HERfinance Digital Wages program. BSR developed the HERfinance Digital Wages program with support from the Bill & Melinda Gates Foundation, bringing together global brands, their suppliers and expert local partners to help factories and their workers make the transition to digital wages.

Globally, over 1.7 billion people have no access to formal financial services. For low-income workers, cash payments mean a lower likelihood of saving money and therefore higher vulnerability to unexpected economic shocks such as illness or loss of employment. Transitioning to digital payments benefits all workers, especially women, as it often provides them with ownership and access to a formal account. Digital payments establish a record that workers are paid properly and on time, providing a transparent, efficient and secure process. This is not only important for Li & Fung to be able to confirm that workers are being paid properly, but also as an early indicator of potential financial issues that could affect factory performance, business continuity and workers' livelihoods.

> Supporting our factory base to move to digital wages aligns with our goal to progressively digitalize the supply chain and make life better for a billion people.

Harsh Saini
EVP Corporate Sustainability & Compliance[5]

4 *2018 Snapshot Study of Young Workers in China's Manufacturing Sector*, http://www.ccrcsr.com/resource/948
5 Formerly known as Vendor Compliance & Sustainability.

Environmental Resilience

Our approach includes identifying and mitigating environmental risk in our supply chain, while supporting solutions for improved environmental impact at scale. We partner with thought leaders, brands, retailers and suppliers to support industry-wide improvement. Key environmental risks in the supply chain include:

- wastewater and chemical pollution from fabric production, dyeing and finishing
- water scarcity, which is intensified by raw material sourcing and processing and fabric production
- energy consumption, and greenhouse gas and air emissions, at all levels of the supply chain

Environmental Attributes in Sourcing

We aim to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Virtual design and sampling for our customers not only enables us to quickly share concepts, perfect designs, select materials and tweak product attributes, but to avoid environmental impacts from travel and transportation and reduce wastage from the sample and product production.

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

Measuring Factory Performance

We have partnered with the Sustainable Apparel Coalition since its inception. We use its Higg Index Facility Environmental Module to assess risk and opportunities in our supply chain. In 2018, we connected with over 600 factories to assess their performance. We are committed to driving further adoption of the Higg Index with a goal of 1,000 completed modules in 2019.

Chemical Use Reduction

We launched an initiative in 2017 to monitor, reduce and ultimately eliminate hazardous chemicals in the supply chain, starting with our private label group. This program provides training for factories to identify key chemicals of concern that should be avoided, as well as testing to verify progress. In 2018, we partnered with GoBlu to achieve the same goals using a more proactive, scalable approach. This involves a re-engineered process to digitize a facility's chemical inventory, simplifying tracking and the identification of areas for improvement, enhancing transparency, and facilitating a proactive approach to chemical management. To date we have assessed a total of 20 facilities with three in China and 17 in Bangladesh, mapping their total chemical inventories and identifying priority chemicals for substitution. We intend to scale this program further in 2019 with our direct factories and partners further upstream.

Climate Change and Energy Efficiency

Extreme weather induced by climate change has the potential to physically impact and disrupt different points in the supply chain, from the harvesting of natural materials/ inputs and the production of goods by our suppliers, to the storage and delivery of final products to our customers. Managing these risks is incorporated into our risk assessment process.

We increasingly source goods from suppliers that operate energy-efficient factories and support our suppliers' transition to become leading facilities, in terms of environmental performance and automation technology. In 2018, we piloted a "smart factories" project in several factories in China and India. The pilot has installed energy sensors to help factories reduce electricity consumption by 15% in China and 3% in India with a quick payback period of less than 12 months. We look forward to scaling this project further in 2019.

Environmental Resilience

Benchmarking 600 suppliers using the Higg Facility Environmental Module

Our Communities

We engage our people to meaningfully contribute to our communities.

Our Communities

We are committed to making a positive impact in our communities. We are in it together, striving to make life better for a billion people.

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

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

We aim to harness our strengths, including our global networks, local knowledge, relationships and some 16,800 people across key production countries globally to make positive impacts. The Li & Fung Foundation helps our colleagues contribute to communities by providing resources and support for volunteering, sharing knowledge and skills, and raising funds for initiatives, campaigns and disaster relief. Each activity is tracked to measure the inputs, outputs and outcomes. We share our metrics and use them to review the focus and effectiveness of our programs. Our community partners have a close connection with the beneficiaries of our activities and help us report and share stories and statistics on how we are creating impact. Guided by the interests of our volunteers, we aim to support long-lasting, sustainable activities that matter to our beneficiaries, partners, volunteers and colleagues, and that align with our values.

Our community investment and engagement activities focus on making progress towards the UN Sustainable Development Goals (UN SDGs) of No Poverty, Good Health and Wellbeing, Gender Equality, Decent Work and Economic Growth, and Responsible Consumption and Production.

2018 Community Impact Results

In 2018, our colleagues spent over 13,000 hours on hands-on activities, such as tree planting and working with children, almost 18,000 hours participating in awareness-raising activities on issues ranging from empowering refugees to protecting the environment, and over 700 hours for other events, including in-kind donation activities and fundraisers.

Our colleagues generously donated almost US$90,000 to support community initiatives in 2018, including educational sponsorships for children, disaster relief, global campaigns for both women's and men's health and a wide variety of programs to care for local communities. In addition, our Company donated over US$400,000, providing further support to 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 2018, total support from Fung family members and the Li & Fung Foundation was over US$182,000.

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 colleagues volunteering over 115,000 times, and contributing over 213,000 hours to support 2,388 social and environmental initiatives around the world.

Since 2011, our colleagues have also donated over US$1.86 million to support communities, the Fung (1906) Foundation, the Fung family, and the Li & Fung Foundation have provided over US$3.7 million to further support some of these projects, and our corporate donations have totaled US$7.3 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 some of our activities in 2018 are shared below under our three focus areas of activating communities, convening the supply chain and creating exponential impact.

357
Activities

Our people volunteered
18,500+ times

78 locations in **26** countries participated in community initiatives

31,000+
Volunteer hours

22,000+
Volunteer hours during working hours

9,000+
Volunteer hours during non-working hours

Activating Communities

We harness the expertise, interests, time and talent of our people around the world to raise awareness and take action to help meet social and environmental needs. We do this by investing in the potential of people and helping communities in need.

Colleagues around the world 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 encourage colleagues to take advantage of our eight-hour volunteer leave policy. In 2018, we continued our successful "Make Life Better" volunteer recognition program whereby colleagues that log at least eight volunteer hours receive a US$25 Kiva credit to loan to an entrepreneur in any of the 80 countries where Kiva operates. This not only enables team leaders to highlight their community impact but expands that impact worldwide to others needing support. Our Make Life Better program sends a strong message encouraging colleagues to make a difference, find their purpose and extend impact to others outside of our direct communities. Since the program began, our colleagues have funded 450 borrowers across 40 countries.

We engage colleagues to act as community engagement ambassadors to inspire others, share information, connect with community partners, organize activities, and track outcomes and results. In 2018, we continued to publish our biweekly community engagement newsletter to highlight how our work relates to global issues 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 One Family, our internal communications platform, website updates and social media channels.

We work with over 80 community organizations to maximize impact, including: the Asian University for Women (AUW), cancer funds in various markets, Cambodian Children's Fund, Captivating International, Christina Noble Children's Foundation, Crossroads, Habitat for Humanity, Movember Foundation, Red Cross, Room to Read, The Women's Foundation (TWF) and the Worldwide Fund for Nature (WWF).

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. Our activities in 2018 included:

- Sponsoring girls' education and daily living essentials in a safe and nurturing environment and empowering girls with vocational training in China

- Over 12,700 youth benefiting from engagement activities, such as tutoring, donations of goods, soap redistribution, tree planting, career talks and youth home visits in Bangladesh, Cambodia, China, Guatemala, Pakistan, the Philippines, Thailand, the United States and Vietnam

- Partnering with the AUW, Foster Pride, 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 and financial support globally, as well as internships in Bangladesh

Helping Communities in Need

We mobilize our people through both global campaigns supporting universal causes and locally-organized activities that target specific needs. Our global campaigns include causes such as men's and women's health, blood donations and caring for the environment. We support a number of local initiatives that address social needs and enhance livelihoods. Our activities in 2018 included:

- Collecting over 250 kg of waste from coastlines and cityscapes, planting over 1,250 trees, holding workshops and raising awareness about environmental impacts as part of our seventh annual "Clean Up Our World" campaign

- Our RETHINK Challenge, a new addition to our well-established Clean Up Our World campaign, saw enthusiastic participation across 24 countries as colleagues, families and friends pledged to forego single-use, disposable items

- Convening local and international organizations at our Sustainability Expo in Hong Kong, featuring the short film *Start Small, Start Now* created by local, non-profit organization EcoDrive, bringing to the fore the issue of single-use plastic and exploring what can be done by individuals and businesses to address this problem. 250 attendees took part in the event, and many made commitments to change their own behavior and influence others

- Donating almost 950 pints of blood and raising awareness for humanitarian needs in 39 of our offices from Thailand to Turkey, potentially saving up to 2,845 lives[1]. In Hong Kong, we supported the Red Cross with our 20th year of blood donations

- Fundraising to support those impacted by natural disasters in Indonesia and India. We also donated items such as food, books and school supplies and provided tutoring in Cambodia and Vietnam through ongoing partnerships with the Cambodian Children's Fund and the Christina Noble Children's Foundation

The Li & Fung Foundation and Explorium HK partnered with non-profit organization, EcoDrive, to host a Sustainability Expo where a selection of educational booths and stalls selling environmentally-responsible products were featured.

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

- Investing in the health of our people and communities through awareness-building campaigns, events and fundraisers. We also upgraded infrastructure to support a school in an underprivileged area of Karachi, Pakistan, organized sporting events for refugees, supported running events, and promoted health campaigns. Our women's health awareness campaign, Pink month, saw over 4,000 colleagues dress pink from Guatemala and Nicaragua to the Netherlands to the Philippines. Our men's health awareness campaign, Movember, reached colleagues all over the world and for the fifth year running, Li & Fung was one of the top five fundraisers in Hong Kong

- Helping to improve schools through hands-on refurbishment and betterment in Bangladesh, China, Pakistan, Turkey and Vietnam, including uniform and school material donations, construction and basic school maintenance activities, and donations of other basic necessities to support children's education

- Donating clothing, meals, school supplies, along with volunteer time and financial support globally, to refugees, students, elderly, children in need, underprivileged women, orphans and the homeless

Convening the Supply Chain

We leverage our networks, people and partnerships to implement specific projects that build sustainable, shared value for all stakeholders. 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. Our activities in 2018 included:

- Through our partnership with BSR to implement the HERproject, empowering factory workers, most of whom are female, in Bangladesh, Cambodia, India and Vietnam. These workers benefit from education on nutrition, health and financial literacy, and on improving workplace interaction, harmony and efficiency. Over the course of the project, we have engaged over 175,000 workers in over 80 factories, yielding significant results including reduced absenteeism, sick leave and resignations and improved workplace communication and productivity

Li & Fung and Fung Group colleagues have been actively supporting the Cambodian Children's Fund in Phnom Penh by visiting their community to volunteer, sharing their skills and prototyping a leadership development curriculum.

Through our partnership with BSR to implement the HERproject, we empower factory workers who are mainly female to benefit from education on nutrition, health and financial literacy and on improving workplace interaction, harmony and efficiency in Bangladesh, Cambodia, India and Vietnam.

- Launching BSR's HERfinance Digital Wages program with support from the Bill & Melinda Gates Foundation, bringing together global brands, their suppliers and expert local partners to help factories and their workers make the transition to digital wages

- Working with our Logistics business to collect and deliver used clothes and donated samples to help support Hong Kong community partners including Redress and the Rotary Club of Kowloon Golden Mile

Creating Exponential Impact

We 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 and the communities in which we live and work, and for workers in our supply chain.

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

- Partnering with Kiva to fund micro loans to almost 200 entrepreneurs, 84% of whom are female, in over 30 countries. Many of their enterprises are along the supply chain where we live and work, including in Cambodia and Vietnam

- Engaging family members, friends and Company alumni to take part in volunteering and fundraising activities to extend our positive impact. These volunteer efforts included hands-on community support projects, environmental projects, education projects, blood donations, health and wellness campaigns, fundraisers and in-kind donation drives

- Leveraging our global intranet and social media platforms to tell impactful community engagement stories and encourage best practice sharing. Our One Family community engagement blog has over 22,000 views, with over 1,000 people liking our posts in 2018, and our social media audience has been continually growing

Other examples of our initiatives in the supply chain are shared in the 'Our Supply Chain' section of this report.

Our Footprint

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

Our Footprint

2018 marks the ninth year of implementing our holistic Sustainability Strategy, which guides us in responsibly managing our operations and supporting our people to reduce environmental impact.

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 on:

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

In so doing, we contribute to the UN Sustainable Development Goals of Affordable and Clean Energy and Responsible Consumption and Production.

Across our operations, we implement best practices in how we maintain, retrofit and fit out our global offices and distribution centers (DCs). This includes initiatives to reduce consumption and waste, promote recycling and expand our procurement of items with sustainability attributes. We also invest in energy-efficient building systems, equipment and lighting, water-efficient equipment and fixtures and fuel-efficient transport, and conduct assessments as part of all capital expenditure upgrades and renovations to adopt sustainable options. In 2018, we launched global campaigns to raise awareness of our global climate and waste crisis and shared tips on how to take action. Systems to measure, track and manage our environmental performance have been implemented across our operations with ISO 14001 environmental management system (EMS) standard[1] certifications covering five facilities in Hong Kong, one each in Shanghai, Singapore and Thailand, and five in Taiwan. In 2018, none of our facilities experienced any non-compliance incidents with applicable legal requirements.

1 At total of nine ISO 14001 EMS standard certifications are held covering a total of 13 DCs. With the strategic divestment of our three product vertical businesses, Furniture, Beauty and Sweaters, certifications associated with the Beauty business' manufacturing facilities are no longer reported as part of Li & Fung's scope.

Environmental Awareness

We inspire and support our people to be mindful of how they can reduce environmental impact in their daily lives. Our 16,840 colleagues around the world share best practices on environmental protection through our internal communications platform, One Family. We feature stories on environmental initiatives, and our 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 continue to encourage colleagues to use the annual eight-hour volunteer leave policy to volunteer for activities they support in their communities. 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 in 2017, we have celebrated 450 of these 'Make Life Better Superheroes' and we are encouraging greater use of the app to log hours.

In 2018, 3,494 of our people volunteered 6,875 hours to support 49 beach cleaning and other environmental activities. Since 2012, our annual 'Clean Up Our World' campaign has brought together close to 18,000 colleagues, friends and family members in support of over 250 environmentally-beneficial activities.

This year, as part of our eighth campaign, we upped the ante to make it even more impactful by launching a RETHINK Challenge. We called on our colleagues to sign up for the challenge to RETHINK their lifestyles and live for a week without using single-use plastic and disposable items, to share photos and stories on One Family to inspire everyone to get involved, and to adopt these habits going forward.

A highlight of our efforts in 2018 was our Sustainability Expo. The expo featured a screening of 'Start Small, Start Now', a short documentary produced by Hong Kong non-profit organization, EcoDrive[2], to raise awareness about Hong Kong's ever-pressing plastic problem, an expert panel, educational booths and stalls. We also had a pledge board where people shared the steps they would take to reduce their consumption of single-use plastic.

The event was attended by over 220 people from Li & Fung and representatives of other companies and non-governmental organizations in Hong Kong. Participants were very excited to have opportunities to learn and share, and to purchase items that could help them avoid single-use plastic and/or had other environmental and social attributes. We also shared the movie, tips and inspirational messages with our colleagues globally through One Family.

In 2018, we also partnered with the environmental organization, One Earth – One Ocean[3], to focus on the need to clean our oceans, and to celebrate the Asian tour of the SEEKUH ("sea cow") vessel, which collects oceanic plastic waste for recycling. A high-profile and engaging event, with healthy catering free of single-use disposable plastic, was held at the Hong Kong Maritime Museum to raise awareness and inspire action to address our plastic and ocean crisis and to showcase the SEEKUH in the Hong Kong harbor. In April, colleagues around the world honored Earth Day and in Taiwan an event was held to hear about how ocean pollution is affecting marine life and learn how we can take action.

"Clean Up Our World" is one of our environmental initiatives to raise awareness.

2 http://www.ecodrivehk.com/
3 https://oneearth-oneocean.com/en/

Sustainable Design

Integrating sustainability features into how we design, build and renovate our offices and DCs helps us 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 2018, we maintained two gold and one silver Leadership in Energy and Environmental Design (LEED) certifications[4], in Bangladesh, Hong Kong and Istanbul, respectively. 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), was launched in 2016 to support our Three-Year-Plan focus on transforming our business. It involves redesigning our office space globally to promote collaboration. In 2018, we transformed two and half floors in our largest office building in Hong Kong, which is in addition to previously converted WoW offices in Jakarta, Qingdao, New Delhi, Seoul and Singapore. In 2019, we plan to roll out WoW to Dhaka, Ho Chi Minh and Shanghai. Project WoW also seeks to minimize environmental impact by reducing renovation work, 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.

Resource Management

Our Reporting Scope and Baseline

2018 marks the second year of our current Three-Year Plan and of capturing environmental data more comprehensively across our global business. Our reporting scope[5] covers over 230 offices and 280 DCs.

We reset our environmental baseline in 2017 as a result of capturing more consumption data in our system globally and the expansion of our Logistics business. However, we did not modify our goal to reduce our overall footprint for our current Three-Year Plan and kept the same intensity reduction targets that we previously set for 2019.

Visit our website for details of our performance in 2018, in comparison to 2017, and of our environmental footprint initiatives.

Our Singapore office adopted sustainable design elements.

4 The reduced number of certifications in comparison to previous years is a result of the strategic divestment of Li & Fung's three product vertical businesses, Furniture, Beauty and Sweaters, and changes in property management within the Company.

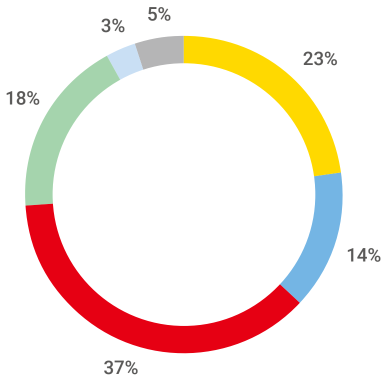
5 With the strategic divestment of Li & Fung's three product vertical businesses, Furniture, Beauty and Sweaters as announced in December 2017 and completed in April 2018, the reporting scope now comprises our Continuing Operations only.

Responsible Procurement

Our global procurement team leverages the scale of our network of over 18,000 indirect goods and services suppliers to our own operations and focuses on implementing procurement best practices. Our suppliers are primarily based in Asia.

We assess the performance of suppliers to our own operations against our Supplier Code of Conduct and its requirements are formalized in our contracts with suppliers and in our request for proposal and selection process. Please refer to the "Our supply chain" section to learn about our approach to both managing supply chains and sourcing materials and products with sustainability attributes for our customers.

Regional Distribution of Indirect Goods and Services Suppliers in 2018



Hong Kong	4,389	23%
China	2,669	14%
Rest of Asia	6,876	37%
Europe	3,374	18%
America	610	3%
Rest of the World	935	5%

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 increasingly source goods from suppliers that operate energy-efficient factories and we continue to support factories to implement an online sustainability assessment tool to review performance against five key sustainability categories, including energy and emissions, and to install energy sensors to better manage consumption. Refer to Our Supply Chain section for more information.

Consumption of energy for our own operations and the composition of our GHG and air emissions globally reflect that our business has offices and we operate vehicle fleets and DCs. In all of our facilities, systems are in place to monitor consumption and emissions and we met relevant environmental regulatory requirements in 2018.

We calculate our GHG emissions according to international standards, appropriate national and local guidelines and emission factors. Scope 1 comprises emissions from the consumption of diesel and petrol by Company-owned vehicles, natural gas for heating and of refrigerants by chillers. Scope 2 emissions arise from purchased electricity.

Our LF Logistics' colleague scans a QR code to enhance efficiency.

The nature of our consumption and emissions changed in 2018 with the restructuring of our data collection system to align with our Services and Products business segments. In 2018, our electricity consumption and our GHG emissions decreased in absolute quantities and intensities over 2017. Increases in consumption as result of the expansion of our Logistics business were offset by the consolidation of our trading business activities and the closure of some of our offices. Ongoing investments in efficient equipment, technologies, systems and vehicular fleets, as well as behavioral change, contribute to our energy conservation efforts. 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 and 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, including solar photovoltaic panels to generate electricity for our building in Istanbul and a planned installation at our DC in Hong Kong in 2019
- Operating three electric delivery vans in Hong Kong, and eleven through a third party in Mainland China, with plans to expand our electric vehicle fleets
- Operating forklift vehicles that have rechargeable electric batteries for the majority of our fleets in all our facilities, 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

In our DC in Bukit Raja, Malaysia, we realized environmental and safety benefits by deploying drones for stock taking and eliminating the need for warehouse colleagues to use very large, energy-consuming equipment and to work at height. As the drones can analyze 180 pallets per hour, which is twice as fast as traditional methods, we also benefited from productivity gains.

Visit our website for more examples and details of our 2018 electricity, fuel, 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

The need to consume resources responsibly and efficiently, and reduce waste, is a significant global concern.

We implement water-efficiency measures that include installing water-efficient faucets, fixtures and fittings in our offices and equipment in our facilities, capturing rainwater for landscape irrigation and encouraging behavioral change.

Our offices use paper certified by a Forest Stewardship Council™ (FSC™) accredited certification body to be FSC Mix Paper from responsible sources or that has Programme for the Endorsement of Forest Certification (PEFC). We implement initiatives to reduce paper consumption globally and in Hong Kong, print volumes reduced by 4.1 tonnes, a 10% reduction over 2017, with 37% of that resulting from a switch from 80 to 70gsm[6]. We continue to remove and consolidate printers in our offices, reducing overall volumes by ~25% to approximately 600 devices in 2018.

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. Our DCs have systems in place to reduce consumption and waste generation in the warehousing and distribution processes. All 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.

We ensure that our non-hazardous and hazardous waste is collected by licensed contractors to guarantee the safe and proper disposal of this waste. In 2018, we donated at total 809 items of electronic equipment to support the work of Caritas Hong Kong to help those in need.

A new, global initiative was to remove plastic bin liners and personal bins in office areas, as of October 2018. This is part of our WoW initiative but also our effort to reduce waste and single-use plastic. Each floor has a centralized waste area, encouraging people to get up, stretch and be more active. Our New York office and many others have removed single-use plastic, replacing them with reusables. In 2018, we undertook an analysis of what would be involved in banning single-use plastic items that have feasible alternatives in our catering, building management and office operations. We will progressively phase out single-use plastic items and other disposables with reusables and alternatives that have a reduced environmental impact, such as plant-based, biodegradable items and non-petroleum-based products.

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. Despite our efforts to consume resources efficiently, our global water and paper consumption increased in 2018, in both absolute quantity and intensity. This is primarily due to the increased capture of consumption data across our global operations and an expansion of our Logistics business. In comparison with 2017, quantities of non-hazardous waste reduced with an increase in hazardous waste sent for proper disposal. While we increased the capture of glass for recycling, quantities of metal, paper and plastic reduced. Going forward, we will review our collection system and data capture and continue to raise awareness of the importance of reducing waste and ensuring recyclable materials are recycled.

Visit our website for our water and paper consumption data and our waste and recyclables metrics.

Recycling bins in our Hong Kong office.

6 GSM refers to grams per square meter.

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 High Dividend Yield Index
MSCI Global Sustainability Indexes
MSCI Index Series

Key Dates

22 Aug 2018 Announcement of the 2018 Interim Results

18 Sep 2018 Payment of 2018 Interim Dividend

21 Mar 2019 Announcement of the 2018 Final Results

17 May 2019 Record Date for the 2019 Annual General Meeting

23 May 2019 Annual General Meeting

27 May 2019 Dividend Ex-entitlement for Shares

29-30 May 2019 (both days inclusive) Closure of the Register of Shareholders

5 Jun 2019 Proposed Payment of 2018 Final Dividend

Registrar & Transfer Offices

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Hamilton HM 12, Bermuda

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 2018
8,506,586,006 Shares

Market capitalization as at 31 December 2018
HK$10,463,100,787

Basic earnings/(losses) per Share for 2018
Interim
– Continuing Operations 0.6 US cents
– Discontinued Operations (1.61) US cents

Full Year
– Continuing Operations 1.5 US cents
– Discontinued Operations (1.63) US cents

Dividend per Share for 2018
Interim 3 HK cents | Final 4 HK cents
Total 7 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 2018.

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 42 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 2018, 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 131. 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 54 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 124 to 131 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 90 to 131.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on pages 154 to 155.

The Directors declared an interim dividend of HK$0.03 (equivalent to US$0.004) per ordinary share, totalling US$33 million which was paid on 18 September 2018.

The Directors recommend the payment of a final dividend of HK$0.04 per share, totalling US$44 million.

Distributable Reserves

At 31 December 2018, the reserves of the Company available for distribution as dividends amounted to US$2,931,345,000, comprising retained earnings of US$2,476,705,000 and contribution surplus of US$454,640,000 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)); and (iv) the distribution of a special dividend of US$519,549,000 in 2018.

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$481,000.

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 2018 and for the previous nine financial years are set out in the "Ten-Year Financial Summary" section on pages 256 to 257.

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 2018.

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 2018, there were Share Options relating to 10,000,000 Shares granted by the Company representing 0.12% 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 2018, there were Share Options relating to 55,955,000 Shares granted by the Company representing 0.66% 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 2018 are as follows:

			Number of Share Options				
Grant Date	Exercise Price HK$	Grantees	As at 1/1/2018	Granted	Lapsed	As at 31/12/2018	Exercisable period
2003 Option Scheme							
22/12/2011	12.12[1]	Spencer Theodore Fung	6,000,000	–	(1,000,000)	5,000,000	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
		Marc Robert Compagnon	6,000,000	–	(1,000,000)	5,000,000	
2014 Option Scheme							
21/5/2015	7.49[2]	William Fung Kwok Lun	7,509,000	–	(2,503,000)	5,006,000	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	–	(1,523,000)	3,046,000	
		Marc Robert Compagnon	3,945,000	–	(1,315,000)	2,630,000	
		Joseph C. Phi	3,318,000	–	(1,106,000)	2,212,000	
		Continuous Contract Employees	65,330,000	–	(23,887,000)	41,443,000	
		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	98,893,000	–	(32,938,000)	65,955,000	

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 807,462,830 Shares, representing 9.49% 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 71,217,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 21,583,000 Award Shares were awarded to connected persons. A total of 13,305,300 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 300,900 Award Shares to connected persons and 13,004,400 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 21,282,100 Award Shares were purchased from the open market to satisfy awards to connected persons and 36,629,600 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 and the Scheme Mandate.

As at 31 December 2018, the trustee of the Share Award Scheme held a total of 4,618,800 Shares which 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 1/1/2018	Granted	Vested	Unvested/ Forfeited*	As at 31/12/2018	Vesting Date
21/5/2015	Spencer Theodore Fung	270,000	–	(180,000)	–	90,000	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
	Marc Robert Compagnon	229,800	–	(153,200)	–	76,600	
	Joseph C. Phi	193,800	–	(129,200)	–	64,600	
	Connected Persons other than Directors	1,852,800	–	(1,200,600)	(51,900)	600,300	
	Non-connected Persons	14,673,000	–	(8,394,100)	(2,058,200)	4,220,700	
16/11/2015	Non-connected Persons	449,800	–	(230,500)	(54,100)	165,200	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
19/5/2016	Connected Persons other than Directors	14,600	–	(7,300)	–	7,300	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
	Non-connected Persons	624,900	–	(270,300)	(88,200)	266,400	
14/11/2016	Non-connected Persons	122,200	–	(53,700)	(14,800)	53,700	To be vested in two tranches with the vesting date on 31 December of each year from 2018 to 2019
13/7/2017	William Fung Kwok Lun	1,143,000	–	(381,000)	–	762,000	To be vested in three tranches with the vesting date on 31 December of each year from 2018 to 2020
	Spencer Theodore Fung	1,143,000	–	(381,000)	–	762,000	
	Marc Robert Compagnon	953,000	–	(319,000)	–	634,000	
	Joseph C. Phi	762,000	–	(254,000)	–	508,000	
	Connected Persons other than Directors	4,512,000	–	(1,500,000)	(28,000)	2,984,000	
	Non-connected Persons	56,985,800	–	(17,071,800)	(7,051,200)	32,862,800	
23/3/2018	Spencer Theodore Fung	–	1,479,000	(493,000)	–	986,000	To be vested in three tranches with the vesting date on 31 December of each year from 2018 to 2020
	Marc Robert Compagnon	–	1,479,000	(493,000)	–	986,000	
	Joseph C. Phi	–	1,479,000	(493,000)	–	986,000	
	Connected Persons other than Directors	–	1,647,000	(551,000)	–	1,096,000	
	Non-connected Persons	–	1,538,000	(523,000)	(57,000)	958,000	
23/8/2018	William Fung Kwok Lun	–	1,181,000	–	–	1,181,000	To be vested in three tranches with the vesting date on 31 December of each year from 2019 to 2021
	Spencer Theodore Fung	–	3,150,000	–	–	3,150,000	
	Marc Robert Compagnon	–	2,953,000	–	–	2,953,000	
	Joseph C. Phi	–	2,756,000	–	–	2,756,000	
	Connected Persons other than Directors	–	5,459,000	–	–	5,459,000	
	Non-connected Persons	–	48,096,000	(11,600)	(2,010,000)	46,074,400	
	Total	83,929,700	71,217,000	(33,090,300)	(11,413,400)	110,643,000	

* 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 31 December 2018, 71,570,949 Shares are available for grant of awards in the future under the Share Award Scheme, representing approximately 0.84% 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 2018 are set out in Note 42 to the financial statements.

Associated Companies

Details of the Company's principal associated companies at 31 December 2018 are set out in Note 42 to the financial statements.

Joint Venture

Details of the Company's principal joint venture at 31 December 2018 are set out in Note 42 to the financial statements.

Major Customers and Suppliers

During 2018 and 2017, 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, comprising the Continuing Operations and the Discontinued Operations, were 16% (2017: 13%) and 37% (2017: 36%), respectively.

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

Save as disclosed above, during 2018, 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.

Continuing Connected Transactions

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

(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 would 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 constituted a connected transaction of the Company under the Listing Rules and was 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 and completed on 3 April 2018.

The three Product Verticals have become connected parties of the Company after the strategic divestment. On 3 April 2018, the Company entered into the following agreements with LH Pegasus Holding Limited ("LH Pegasus"), the holding company of the divested three Product Verticals, to deal with ongoing transactions after closing between the Group and the divested three Product Verticals:

- **Services Agreement:** The services agreement allows LH Pegasus and its subsidiaries to continue to be supplied with certain back office functions related to IT, human resources, finance and accounting, corporate services and global transaction services for a term commencing on 3 April 2018 to 31 December 2019. In such respect, the Group recorded service fee received of US$20,500,000 for the period from 3 April 2018 to 31 December 2018, which did not exceed the annual cap for 2018 of US$35 million.

- **Master Property Agreement:** The master property agreement allows LH Pegasus and its subsidiaries and the Group to sub-lease and license office, showroom and warehouse premises to and from one another for a term commencing on 3 April 2018 to 31 December 2020. In such respect, the aggregate operating lease rental and license fee paid to and from one another approximated US$2,420,000 for the period from 3 April 2018 to 31 December 2018, which did not exceed the annual cap for 2018 of US$15 million.

- **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 LH Pegasus and its subsidiaries; (ii) the Group to provide logistics services to LH Pegasus and its subsidiaries; and (iii) LH Pegasus and its subsidiaries to provide trading services to the Group, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020 respectively. For the period from 3 April 2018 to 31 December 2018, aggregate amount of (i) ancillary sourcing commission, (ii) logistics service income excluding the pass-through costs for direct freight forwarding, received from, and (iii) trading services commission paid to LH Pegasus was US$12,355,000, which did not exceed the annual cap for 2018 of US$40 million.

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 17 November 2017 for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. 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$19,495,000 for the year ended 31 December 2018 which did not exceed the annual cap for 2018 of US$70 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 US$25,599,000 for the year ended 31 December 2018 which did not exceed the annual cap for 2018 of US$70 million.

(iii) On 14 November 2016, 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 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 buying agency agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the year ended 31 December 2018, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income, consisting of commission and FOB price of all products and components sourced, of approximately US$1,363,013,000. The commission payable to the Group under the buying agency agreement did not exceed the annual cap for 2018 of US$170 million and the cap on commission rate of 7% on the FOB price for all products and components sourced through the Group.

(iv) On 17 November 2017, 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 2018 and ending on 31 December 2020. 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$16,725,000 for the year ended 31 December 2018 which did not exceed the annual cap for 2018 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 until 18 April 2018 when Trinity ceased to be a connected party. The commission received for the sourcing and supply chain management services to Trinity was US$1,522,000 from 1 January 2018 to 17 April 2018 which did not exceed the annual cap for 2018 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 2018 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 2018 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 2018 were:

	US$'000
Contributions to the MPF Scheme	1,271
Contributions forfeited by employees	(48)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	2,030
Contributions pursuant to the statutory requirements in Korea	1,043
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	1,998
Contributions pursuant to statutory requirements in China	37,172
Contributions pursuant to local requirements in other overseas regions	10,413
	53,879

Directors

The Directors during the year and up to the date of this Report were:

Non-executive Directors:

Victor Fung Kwok King (Honorary Chairman)
Marc Robert Compagnon (re-designated to Non-executive Director on 28 January 2019)
Allan Wong Chi Yun*
Martin Tang Yue Nien*
Margaret Leung Ko May Yee*
Chih Tin Cheung*
John G. Rice* (appointed on 10 January 2018)

Executive Directors:

William Fung Kwok Lun (Group Chairman)
Spencer Theodore Fung (Group Chief Executive Officer)
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.

Victor Fung Kwok King, William Fung Kwok Lun, Marc Robert Compagnon and Martin Tang Yue Nien will retire by rotation at the forthcoming annual general meeting. All of them, being eligible, will 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 81.

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 "Continuing Connected Transactions" section stated above and Note 35 "Related Party Transactions" to the financial statements.

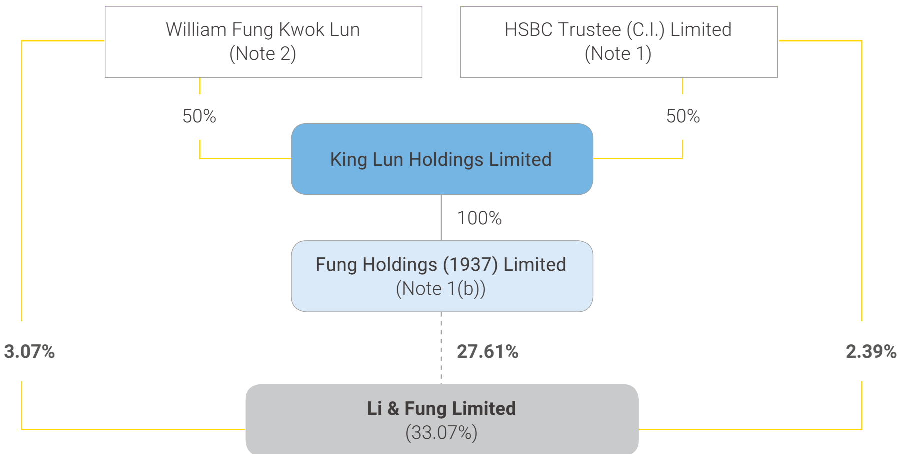
Directors' Interests

As at 31 December 2018, 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[8]
Victor Fung Kwok King	2,814,444	–	2,551,966,180[1]	–	2,554,780,624	30.03%
William Fung Kwok Lun	177,501,260	108,800	2,427,305,472[2]	5,006,000[7]	2,609,921,532	30.68%
Spencer Theodore Fung	3,002,000	–	2,556,954,180[1&3]	8,046,000[7]	2,568,002,180	30.19%
Marc Robert Compagnon	2,325,400	14,000	16,939,380[4]	7,630,000[7]	26,908,780	0.32%
Joseph C. Phi	4,629,078	38,000	4,314,600[5]	2,212,000[7]	11,193,678	0.13%
Martin Tang Yue Nien	60,000	–	60,000[6]	–	120,000	0.00%

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



NOTES:

As at 31 December 2018,

(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) 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. 1,943,000 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 2,556,954,180 Shares, 4,988,000 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 16,939,380 Shares, 4,649,600 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) 4,314,600 Shares represented the interests in award shares granted by the Company and remained unvested.

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

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

(8) The approximate percentages were calculated based on 8,506,586,006 shares in issue as at 31 December 2018.

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

As at 31 December 2018, 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 Share

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 2018, 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]	29.99%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872[2]	27.61%
Silchester International Investors LLP	Investment manager	680,572,000	8.00%
The Capital Group Companies, Inc.	Interest of controlled corporation	674,166,000	7.93%

NOTES:
As at 31 December 2018,

(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 8,506,586,006 shares in issue as at 31 December 2018.

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 2018.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, 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 81.

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 42 to 59.

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 2018, 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, 21 March 2019

Independent Auditor's Report

pwc

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Li & Fung Limited (the "Company") and its subsidiaries (the "Group") set out on pages 154 to 255, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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 Matter

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 matter identified in our audit is summarised as follows:

- Impairment assessment of intangible assets including goodwill

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 consolidated balance sheet is an intangible assets balance of US$2,321 million as of 31 December 2018, which relates to goodwill of US$2,146 million, and system development, software, other license costs and other intangible assets of US$175 million which arose mainly from past acquisitions. 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 amounts 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 2018. 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.

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.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2019

Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Continuing Operations			
Turnover	3	**12,700,744**	13,534,209
Cost of sales		**(11,395,406)**	(12,185,061)
Gross profit		**1,305,338**	1,349,148
Other income		**36,556**	37,124
Total margin		**1,341,894**	1,386,272
Selling and distribution expenses		**(424,984)**	(395,279)
Merchandising and administrative expenses		**(632,188)**	(635,141)
Core operating profit	3	**284,722**	355,852
Gain on remeasurement of contingent consideration payable	4	**8,948**	31,492
Amortization of other intangible assets	4	**(29,136)**	(23,327)
One-off reorganization costs	4	**(17,647)**	(33,945)
Operating profit	4	**246,887**	330,072
Interest income		**10,608**	12,261
Interest expenses	5		
Non-cash interest expenses		**(757)**	(3,284)
Cash interest expenses		**(55,433)**	(66,477)
		(56,190)	(69,761)
Share of profits less losses of associated companies and joint venture	14 &15	**205**	1,898
Profit before taxation		**201,510**	274,470
Taxation	6	**(30,748)**	(40,830)
Profit for the year from Continuing Operations		**170,762**	233,640
Discontinued Operations			
Loss for the year from Discontinued Operations	31(a)	**(139,797)**	(543,045)
Net profit/(loss) for the year		**30,965**	(309,405)

	Note	2018 US$'000	2017 US$'000
Attributable to:			
Shareholders of the Company		**(10,981)**	(374,573)
Holders of perpetual capital securities		**46,125**	64,125
Non-controlling interests		**(4,179)**	1,043
		30,965	(309,405)
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**125,818**	170,418
Discontinued Operations	31(a)	**(136,799)**	(544,991)
		(10,981)	(374,573)
Earnings/(losses) per share for profit/(loss) attributable to the Shareholders of the Company during the year	7		
– Basic from Continuing Operations		**11.7 HK cents**	15.8 HK cents
(equivalent to)		**1.50 US cents**	2.04 US cents
– Basic from Discontinued Operations		**(12.7) HK cents**	(50.6) HK cents
(equivalent to)		**(1.63) US cents**	(6.52) US cents
– Diluted from Continuing Operations		**11.5 HK cents**	15.7 HK cents
(equivalent to)		**1.48 US cents**	2.02 US cents
– Diluted from Discontinued Operations		**(12.5) HK cents**	(50.1) HK cents
(equivalent to)		**(1.61) US cents**	(6.46) US cents

The notes on pages 163 to 255 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Net profit/(loss) for the year		**30,965**	(309,405)
Other comprehensive income/(expense):			
Item that will not be reclassified to profit or loss			
Net fair value gains on financial assets at fair value through other comprehensive income		**134**	–
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax		**(2,613)**	6
		(2,479)	6
Items that may be reclassified subsequently to profit or loss			
Currency translation differences*		**(17,956)**	82,191
Realization of currency translation differences upon disposal of business		**62,685**	–
Reduction of capital reserves upon disposal of business		**(1,452)**	–
Net fair value gains/(losses) on cash flow hedges, net of tax		**4,405**	(6,959)
Net fair value gains on available-for-sale financial assets, net of tax		**–**	174
Total items that may be reclassified subsequently to profit or loss		**47,682**	75,406
Total other comprehensive income for the year, net of tax		**45,203**	75,412
Total comprehensive income/(expense) for the year		**76,168**	(233,993)
Attributable to:			
Shareholders of the Company		**34,229**	(299,185)
Holders of perpetual capital securities		**46,125**	64,125
Non-controlling interests		**(4,186)**	1,067
Total comprehensive income/(expense) for the year		**76,168**	(233,993)
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**155,619**	217,611
Discontinued Operations	31(a)	**(121,390)**	(516,796)
		34,229	(299,185)

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

The notes on pages 163 to 255 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 US$'000	2017 US$'000
Non-current assets			
Intangible assets	11	**2,321,294**	2,347,011
Property, plant and equipment	12	**220,264**	208,221
Prepaid premium for land leases	13	**16**	67
Associated companies	14	**5,268**	12,393
Joint venture	15	**374**	996
Available-for-sale financial assets	16	**–**	4,338
Financial assets at fair value through other comprehensive income	16	**4,601**	–
Other receivables, prepayments and deposits	20	**26,663**	27,738
Deferred tax assets	29	**11,711**	17,456
		2,590,191	2,618,220
Current assets			
Inventories	17	**205,877**	147,803
Due from related companies	18	**708,862**	463,163
Trade and bills receivable	20	**1,040,236**	1,148,560
Other receivables, prepayments and deposits	20	**179,549**	150,252
Derivative financial instruments	19	**3,985**	–
Cash and bank balances	21	**612,391**	348,940
		2,750,900	2,258,718
Assets classified as held for sale	31(f)	**–**	1,641,065
Current liabilities			
Due to related companies	18	**37,809**	124
Trade and bills payable	22	**1,736,817**	1,733,661
Accrued charges and sundry payables	22	**592,868**	468,089
Purchase consideration payable for acquisitions	27	**819**	42,166
Taxation		**30,267**	43,908
Derivative financial instruments	19	**–**	5,355
Bank advances for discounted bills	20	**–**	1,724
Short-term bank loans	23	**272,951**	22,970
		2,671,531	2,317,997
Liabilities associated with assets classified as held for sale	31(f)	**–**	466,570
Net current assets		**79,369**	1,115,216
Total assets less current liabilities		**2,669,560**	3,733,436

	Note	As at 31 December 2018 US$'000	As at 31 December 2017 US$'000
Financed by:			
Share capital	24	**13,633**	13,574
Reserves		**1,203,259**	1,734,172
Shareholders' funds attributable to the Company's Shareholders		**1,216,892**	1,747,746
Holders of perpetual capital securities	26	**655,687**	1,158,687
Written put option on non-controlling interests		**–**	(67,000)
Non-controlling interests		**(3,150)**	74,262
Total equity		**1,869,429**	2,913,695
Non-current liabilities			
Long-term notes	27	**751,405**	752,432
Purchase consideration payable for acquisitions	27	**8,141**	19,417
Other long-term liabilities	27	**26,895**	29,034
Post-employment benefit obligations	28	**11,592**	14,165
Deferred tax liabilities	29	**2,098**	4,693
		800,131	819,741
		2,669,560	3,733,436

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

The notes on pages 163 to 255 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 2018	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Comprehensive (expense)/income									
Profit or loss	–	–	–	(10,981)	(10,981)	46,125	–	(4,179)	30,965
Other comprehensive (expense)/income									
Currency translation differences	–	–	(17,949)	–	(17,949)	–	–	(7)	(17,956)
Realization of currency translation differences upon disposal of business	–	–	62,685	–	62,685	–	–	–	62,685
Reduction of capital reserves upon disposal of business	–	–	(1,452)	–	(1,452)	–	–	–	(1,452)
Net fair value gains on financial assets at fair value through other comprehensive income	–	–	134	–	134	–	–	–	134
Net fair value gains on cash flow hedges, net of tax	–	–	4,405	–	4,405	–	–	–	4,405
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	(2,613)	–	(2,613)	–	–	–	(2,613)
Total other comprehensive income/(expense), net of tax	–	–	45,210	–	45,210	–	–	(7)	45,203
Total comprehensive income/(expense)	–	–	45,210	(10,981)	34,229	46,125	–	(4,186)	76,168
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	–	–	(7,577)	–	(7,577)	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	59	–	(59)	–	–	–	–	–	–
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	16,759	–	16,759	–	–	–	16,759
– vesting of shares for Share Award Scheme	–	15,798	(15,798)	–	–	–	–	–	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(49,125)	–	–	(49,125)
Redemption of perpetual capital securities	–	–	–	–	–	(500,000)	–	–	(500,000)
Transfer to capital reserve	–	–	24,981	(24,981)	–	–	–	–	–
2017 final dividend paid	–	–	–	(21,830)	(21,830)	–	–	–	(21,830)
2017 special dividend paid	–	–	(519,549)	–	(519,549)	–	–	–	(519,549)
2018 interim dividend paid	–	–	–	(32,886)	(32,886)	–	–	–	(32,886)
Disposal of business	–	–	–	–	–	–	67,000	(73,226)	(6,226)
Total transactions with owners in their capacity as owners	59	15,798	(501,243)	(79,697)	(565,083)	(549,125)	67,000	(73,226)	(1,120,434)
Balance at 31 December 2018	13,633	744,325	53,544	405,390	1,216,892	655,687	–	(3,150)	1,869,429

The notes on pages 163 to 255 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)	Written put option on non-controlling interests US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2017	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 163 to 255 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Continuing Operations			
Operating activities			
Net cash inflow generated from operations	30(a)	**253,736**	359,619
Hong Kong profits tax paid, net of refund		**(3,600)**	(6,647)
Overseas taxation paid		**(39,715)**	(40,102)
Net cash inflow from operating activities		**210,421**	312,870
Investing activities			
Purchases of property, plant and equipment		**(71,793)**	(71,689)
Payments for system development, software, license and other intangible assets		**(34,134)**	(18,900)
Considerations on disposal of business		**1,100,000**	–
Debt released, transaction costs and other closing adjustments for disposal of business*		**(95,073)**	–
Settlement of consideration payable for prior years acquisitions of businesses		**(42,889)**	(67,811)
Proceeds from disposal of property, plant and equipment and prepaid premium for land leases		**2,377**	6,289
Proceeds from disposal of associated companies		**6,992**	–
Interest income		**10,608**	12,261
Dividends received from associated companies	14	**1,416**	821
Investing in a joint venture	15	**–**	(529)
Addition of financial assets at fair value through other comprehensive income	16	**(129)**	–
Net cash inflow/(outflow) from investing activities		**877,375**	(139,558)
Net cash inflow before financing activities		**1,087,796**	173,312
Financing activities			
Interest paid	30(b)	**(55,433)**	(66,477)
Distributions to holders of perpetual capital securities		**(49,125)**	(64,125)
Repayment of long-term notes	30(b)	**–**	(500,000)
Dividends paid		**(574,265)**	(250,200)
Purchase of shares for Share Award Scheme		**(7,577)**	(1,706)
Redemption of perpetual capital securities		**(500,000)**	–
Net drawdown/(repayment) of bank loans	30(b)	**249,981**	(938)
Net cash outflow from financing activities		**(936,419)**	(883,446)
Increase/(decrease) in cash and cash equivalents from Continuing Operations		**151,377**	(710,134)
Discontinued Operations			
(Decrease)/increase in cash and cash equivalents from Discontinued Operations	31(g)	**(73,804)**	251,474
Increase/(decrease) in cash and cash equivalents		**77,573**	(458,660)

	Note	2018 US$'000	2017 US$'000
Cash and cash equivalents at 1 January			
Continuing Operations		**348,940**	830,558
Discontinued Operations		**192,578**	154,481
		541,518	985,039
Increase/(decrease) in cash and cash equivalents		**77,573**	(458,660)
Effect of foreign exchange rate changes		**(6,700)**	15,139
Cash and cash equivalents classified as assets held for sale		**–**	(192,578)
Cash and cash equivalents of Continuing Operations as of 31 December		**612,391**	348,940
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	21	**612,391**	348,940

* The amount is set off by the cash and cash equivalents of Discontinued Operations as the divestment is on a cash free/debt free basis.

The notes on pages 163 to 255 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 Basis of Preparation and Principal Accounting Policies

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

1.1 Basis of Preparation

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

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) NEW STANDARD, NEW INTERPRETATION AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP

The following new standard, new interpretation and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2018:

HKAS 40 Amendment	Transfer of Investment Property
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement Project	Annual Improvements 2014-2016 Cycle

The application of the above new standard, new interpretation and amendments effective 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, except for HKFRS 9 "Financial Instruments" which the Group had to change its accounting policies as 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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(A) NEW STANDARD, NEW INTERPRETATION AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP (continued)

(i) Changes in accounting policies

Available-for-sale financial assets

Available-for-sale financial assets (other than investments in subsidiary companies, associated companies or joint venture) are non-derivative equity financial investments which are measured at fair value. Management is eligible to make an irrevocable election, on an instrument-by-instrument basis, on equity investments other than those held for trading, to present changes in fair value through profit or loss or fair value through other comprehensive income ("FVOCI"). The Group has elected to measure as FVOCI, to which any fair value gains or losses accumulated in the revaluation reserve account will no longer be reclassified to profit or loss following the derecognition of such available-for-sale financial assets.

Loans and receivables

Loans and receivables are debt instruments that are within the Group's business model to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. At the end of the reporting period subsequent to initial recognition, loans and receivables are subsequently measured at amortized cost less impairment. Interest income using the effective interest method is recognized in the consolidated profit and loss account.

Impairment of financial assets

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39 "Financial Instruments: Recognition and Measurement" to with a forward-looking ECL model. HKFRS 9 contains a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses for amounts due from customers to be recognized from the initial recognition of the trade receivables.

Impairment on other debt instruments at amortized cost are measured as either a 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. As other debt instruments at amortized cost are considered to have low credit risk, the impairment provision applied is to recognize a 12-month ECL.

Hedge accounting

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(A) NEW STANDARD, NEW INTERPRETATION AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP (continued)

(ii) Effects of changes in accounting policies

In accordance with the transitional provisions in HKFRS 9 paragraph 7.2.15 and 7.2.26, comparative figures have not been restated, where the comparative information for prior periods with respect to classification and measurement (including impairment) changes is not restated and differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will be recognized as an adjustment to the opening balance of equity at the date of adoption, i.e. as at 1 January 2018.

Classification of available-for-sale financial assets

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets as they are long-term strategic investments that are not expected to be sold in the short to medium term. Available-for-sale financial assets as at 31 December 2017 will continue to be measured at FVOCI after adoption of HKFRS 9.

Classification of loans and receivables

The Group's existing loans and receivables are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and therefore will continue to be measured at amortized cost.

Impairment of financial assets

For trade receivables and other receivables, the Group applies the HKFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2018.

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. Upon transition to HKFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of HKFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 31 December 2017 qualified as cash flow hedges under HKFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of HKFRS 9 had no significant impact on the Group's financial statements.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

The following new standards, new interpretation and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but the Group has not early adopted them:

HKAS 1 and HKAS 8 Amendment	Definition of Material[2]
HKAS 19 Amendment	Plan amendment, curtailment or settlement[1]
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures[1]
HKFRS 3 Amendment	Definition of Business[2]
HKFRS 9 Amendment	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvement Project	Annual Improvements 2015–2017 Cycle[1]

NOTES:

1 Effective for financial periods beginning on or after 1 January 2019
2 Effective for financial periods beginning on or after 1 January 2020
3 Effective for financial periods beginning on or after 1 January 2021
4 Effective date to be determined

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for HKFRS 16 "Leases" as set out below:

HKFRS 16 Leases

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the consolidated balance sheet. Instead, when the Group is the leasee, almost all leases should be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus, each lease will be reflected in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are optionally exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. The may affect related ratios, such as increase in debt to capital ratio. In the consolidated statement of comprehensive income, leases will be recognized in the future as depreciation and will no longer be recorded as property rental and related expenses. Interest expenses on the lease liability will be presented separately from depreciation under finance costs. As a result, the property rental and related expenses under otherwise identical circumstances will decrease, while depreciation and the interest expense will increase. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in higher total charge to the consolidated statement of comprehensive income in the initial year of the lease, and decreasing expenses during the latter part of the lease term.

As set out in Note 33(a), the Group had non-cancellable operating lease commitments of US$477,340,000. The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019, including any adjustment of prior years. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

HKFRS 16 Leases (continued)

The Group does not expect that the adoption of HKFRS 16 Leases will have a material impact on the Group's net profit. Cash flows from operating activities will increase and cash flows from financing activities will decrease by the same amount due to rental payments being treated as repayments of the principal portion as well as interest expenses of the lease liabilities.

1.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2018.

(A) SUBSIDIARIES

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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 HKFRS 9 in profit or loss. 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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(A) SUBSIDIARIES (continued)

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

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

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

(C) ASSOCIATED COMPANIES

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

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

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

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(D) JOINT VENTURE

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

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

1.3 Segment Reporting

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

1.4 Foreign Currency Translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

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

(B) TRANSACTIONS AND BALANCES

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

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI 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 financial assets at FVOCI are included in the revaluation reserve in other comprehensive income.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation (continued)

(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.

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 and Plant and machinery	$6^2/_3$% – $33^1/_3$%
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 2 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

(I) CLASSIFICATION

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(II) RECOGNITION AND DERECOGNITION

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(III) MEASUREMENT

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss together with foreign exchange gains and losses.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(III) MEASUREMENT (continued)

Debt instruments (continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in profit or loss.

(IV) IMPAIRMENT

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(V) ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017 the Group classified its financial assets as either loans and receivables or available-for-sale. The classification determined on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(A) LOANS AND RECEIVABLES

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the balance sheet date. These were classified as non-current assets. The Group's loans and receivables comprised "trade and bills receivable", "other receivables, prepayments and deposits", "cash and bank balances" and "due from related companies" in the balance sheet (Notes 1.10 and 1.12).

(B) AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

- *Recognition and measurement*

  Regular purchases and sales of financial assets were 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 were derecognized when the rights to receive cash flows from the investments had expired or had been transferred and the Group had transferred substantially all risks and rewards of ownership. Available-for-sale financial assets were subsequently carried at fair value. Loans and receivables were 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 were 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 were recognized in consolidated profit or loss; translation differences on non-monetary securities were recognized in other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale were recognized in other comprehensive income.

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(B) AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

- *Impairment*

(1) *Assets classified as loans and receivables carried at amortized cost*

The Group assessed at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria that the Group used to determine that there was 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 became 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 was 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 could not 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 was 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 was reduced and the amount of the loss was recognized in the consolidated profit and loss account. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was 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 decreased and the decrease could 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 was recognized in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(B) AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

- *Impairment* (continued)

  (2) *Assets classified as available-for-sale*

  The Group assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets was 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 was also evidence that the assets were 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 – was 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 were 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 was reversed through the consolidated profit and loss account.

1.9 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.

1.10 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 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.

1.11 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.

1.12 Cash and Cash Equivalents

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.13 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.

1.14 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)

1.15 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)

1.15 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.

1.16 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)

1.17 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.

1.18 Total Margin

Total margin includes gross profit and other recurring income relating to Services segment and Onshore Wholesale business of Product segment.

1.19 Core Operating Profit

Core operating profit is the profit before taxation generated from the Services segment and Onshore Wholesale business of Products segment 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 which are non-cash items and one-off re-organization costs.

1.20 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 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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.20 Revenue Recognition (continued)

(A) TURNOVER FROM SALES OF GOODS (continued)

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 refund liability is recognized for expected volume rebate payable to customers in relation to sales made until the end of the reporting period.

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.

1.21 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 capitalization.

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

1.22 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)

1.23 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).

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 19. Movements in the hedging reserve in shareholders' equity are shown in Note 25. 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; it is classified as a current asset or liability when the remaining maturity of the hedged item is less 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 hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

The Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset as inventory. When a forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.23 Derivative Financial Instruments and Hedging Activities (continued)

(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.

1.24 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.

1.25 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.

1.26 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.

1.27 Financial Guarantee Contract

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.28 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.

1.29 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).

2 Critical Accounting Estimates and Judgments (continued)

(B) Useful Lives of Intangible Assets

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

(C) Income Taxes

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

(D) Contingent Considerations of Acquisitions

Certain of the Group's business acquisitions have involved post-acquisition performance-based contingent considerations. 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.

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$896,000.

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 across key production countries globally. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group divided 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.

In 2018, the Group divested the three Product Verticals to further simplify our business and facilitate sharper focus on the core sourcing business. 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.

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 and one-off re-organization costs. 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 2018				
Continuing Operations				
Turnover	**11,062,332**	**1,666,702**	**(28,290)**	**12,700,744**
Total margin	**1,036,992**	**304,902**		**1,341,894**
Operating costs	**(805,580)**	**(251,592)**		**(1,057,172)**
Core operating profit	**231,412**	**53,310**		**284,722**
Gain on remeasurement of contingent consideration payable				**8,948**
Amortization of other intangible assets				**(29,136)**
One-off reorganization costs				**(17,647)**
Operating profit				**246,887**
Interest income				**10,608**
Interest expenses				
Non-cash interest expenses				**(757)**
Cash interest expenses				**(55,433)**
				(56,190)
Share of profits less losses of associated companies and joint venture				**205**
Profit before taxation				**201,510**
Taxation				**(30,748)**
Profit for the year from Continuing Operations				**170,762**
Discontinued Operations				
Loss for the year from Discontinued Operations				**(139,797)**
Net profit for the year				**30,965**
Depreciation and amortization (Continuing Operations)	**69,692**	**15,482**		**85,174**
31 December 2018				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	**1,906,798**	**667,081**		**2,573,879**

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)
Profit for the year from Continuing Operations				233,640
Discontinued Operations				
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)

Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	2018 US$'000	2017 US$'000
Turnover		
Supply Chain Solutions	**9,933,108**	10,989,275
Logistics Services	**1,133,374**	1,028,069
Elimination	**(4,150)**	(4,320)
	11,062,332	12,013,024

	2018 US$'000	2017 US$'000
Core operating profit		
Supply Chain Solutions	**145,319**	227,254
Logistics Services	**86,093**	75,103
	231,412	302,357

The geographical analysis of turnover to external customers and non-current assets of the Continuing Operations (other than financial assets at fair value through other comprehensive income/available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current assets (other than financial assets at fair value through other comprehensive income/ available-for-sale financial assets and deferred tax assets) As at 31 December	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
United States of America	**8,373,141**	8,929,344	**1,449,953**	1,448,557
Europe	**2,127,475**	2,357,413	**742,927**	783,277
Asia	**1,391,990**	1,399,381	**241,064**	227,014
Rest of the world	**808,138**	848,071	**139,935**	137,578
	12,700,744	13,534,209	**2,573,879**	2,596,426

3 Segment Information (continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, Logistics Services income and sales of goods of Products segment as follows:

	2018 US$'000	2017 US$'000
Sales of goods of Supply Chain Solutions business	**9,916,489**	10,977,574
Logistics services income	**1,118,663**	1,014,958
Sales of goods of Products segment	**1,665,592**	1,541,677
	12,700,744	13,534,209

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

	2018 US$'000	2017 US$'000
Sales of soft goods	**8,608,996**	9,298,376
Sales of hard goods	**2,973,085**	3,220,875
Logistics services income	**1,118,663**	1,014,958
	12,700,744	13,534,209

For the year ended 31 December 2018, approximately 16% (2017: 15%) and 11% (2017: 10%) of the total turnover of the Group's Continuing Operations is derived from two external customers, of which 16% (2017: 15%) and 11% (2017: 10%) and less than 1% (2017: less than 1%) and less than 1% (2017: 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:

	2018 US$'000	2017 US$'000
Crediting		
Gain on remeasurement of contingent consideration payable (Note)*	**8,948**	31,492
Gain on disposal of property, plant and equipment and prepaid premium for land leases	**–**	953
Net exchange gains	**6,838**	2,922
Charging		
Cost of inventories sold	**11,395,406**	12,185,061
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*	**17,647**	8,455
Depreciation of property, plant and equipment (Note 12)	**47,790**	39,017
Loss on disposal of property, plant and equipment and prepaid premium for land leases	**3,663**	–
Loss on disposal of software	**300**	–
Operating leases rental in respect of land and building	**155,222**	143,255
Increase in provision for impairment of trade and other receivables (Note 20)	**37,353**	2,075
Amortization of system development, software and other license costs (Note 11)	**8,247**	8,347
Amortization of other intangible assets (Note 11)*	**29,136**	23,327
Amortization of prepaid premium for land leases (Note 13)	**1**	7
Staff costs including directors' emoluments (Note 9)**	**710,939**	754,511

* Excluded from the core operating profit

** Including staff costs of US$161,519,000 (2017: US$133,376,000), which are direct labour cost in particular in relation to our Logistics business, recorded as part of the cost of sales within the total margin.

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$9 million was recognized. Among the total remeasurement gain, approximately US$9 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:

	2018 US$'000	2017 US$'000
Audit services	**3,276**	2,778
Non-audit services		
– taxation services	**1,295**	638
– others	**2,099**	1,685
Total remuneration to auditors charged to consolidated profit and loss account	**6,670**	5,101

NOTE:
Of the above audit and non-audit services fees, US$3,068,000 (2017: US$2,727,000) and US$3,056,000 (2017: US$2,323,000), 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

	2018 US$'000	2017 US$'000
Non-cash interest expenses on purchase consideration payable for acquisitions and long-term notes	**757**	3,284
Cash interest on bank loans, overdrafts and long-term notes	**55,433**	66,477
	56,190	69,761

6 Taxation from Continuing Operations

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 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:

	2018 US$'000	2017 US$'000
Current taxation		
– Hong Kong profits tax	**3,850**	4,046
– Overseas taxation	**32,670**	35,411
(Over)/under provision in prior years	**(6,153)**	3,049
Deferred taxation (Note 29)	**381**	(1,676)
	30,748	40,830

6 Taxation from Continuing Operations (continued)

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:

	2018 **%**	2017 %
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(9.0)**	(10.4)
Expenses net of income not subject to taxation	**1.5**	6.6
(Over)/under provision in prior years	**(0.5)**	1.2
Utilization of previously unrecognized tax losses	**(0.3)**	(0.6)
Unrecognized tax losses	**7.1**	1.6
Effective tax rate	**15.3**	14.9

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$125,818,000 (2017: US$170,418,000) and the Group's loss attributable to Shareholders arising from the Discontinued Operations of US$136,799,000 (2017: US$544,991,000) and on the weighted average number of 8,369,665,000 (2017: 8,364,801,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,369,665,000 (2017: 8,364,801,000) ordinary shares in issue by 113,438,000 (2017: 76,342,000) 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

	2018 **US$'000**	2017 US$'000
Interim, paid, of HK$0.03 (equivalent to US$0.004) (2017: HK$0.11 (equivalent to US$0.014)) per ordinary share	**32,886**	120,064
Final, proposed, of HK$0.04 (equivalent to US$0.005) (2017: HK$0.02 (equivalent to US$0.003)) per ordinary share (Note a)	**43,848**	21,830
Special, declared, of HK$Nil (equivalent to US$Nil) (2017: HK$0.476 (equivalent to US$0.0614)) (Note b)	**–**	519,549
	76,734	661,443

NOTES:

(a) At a meeting held on 21 March 2019, the Directors proposed a final dividend of HK$0.04 (equivalent to US$0.005) 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 2018.

(b) On 14 December 2017, the Board of Directors proposed 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 (the "Strategic Divestment").

9 Staff Costs Including Directors' Emoluments from Continuing Operations

	2018 US$'000	2017 US$'000
Salaries and bonuses	**609,653**	653,193
Staff benefits	**33,663**	34,621
Pension costs of defined contribution plans (Note (a))	**51,903**	51,484
Employee share option and share award expenses	**13,744**	13,020
Pension costs of defined benefit plans (Note 28(ii))	**1,682**	1,832
Long-service payments	**294**	361
	710,939	754,511

NOTES:

(a) Forfeited contributions totalling US$48,000 (2017: US$62,000) 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 amounted to US$432,694,000 (2017: US$483,548,000), US$116,726,000 (2017: US$137,587,000) and US$161,519,000 (2017: US$133,376,000) have 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 four (2017: three) Directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments payable to the remaining one individual (2017: two individuals) during the year are as follows:

	2018 US$'000	2017 US$'000
Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind	**809**	2,454
Discretionary bonuses	**378**	1,162
Contributions to pension scheme	**2**	10
	1,189	3,626

	Number of individuals	
Emolument bands	**2018**	2017
US$1,154,000 – US$1,218,000 (HK$9,000,001 – HK$9,500,000)	**1**	–
US$1,602,001 – US$1,667,000 (HK$12,500,001 – HK$13,000,000)	**–**	1
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.

10 Directors' and Senior Management's Emoluments (continued)

(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	**2018**	2017
Below US$1,000,000	**7**	6
US$1,000,001 – US$1,500,000	**3**	8
US$1,500,001 – US$2,000,000	**–**	1

11 Intangible Assets

			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 2018							
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**
Year ended 31 December 2018							
Opening net book amount	**2,168,078**	**24,038**	**32,906**	**100,235**	**12,958**	**8,796**	**2,347,011**
Continuing Operations							
Exchange differences	**(22,153)**	**(635)**	**–**	**(732)**	**(105)**	**–**	**(23,625)**
Additions	**–**	**35,591**	**–**	**–**	**–**	**–**	**35,591**
Amortization (Note 4)	**–**	**(8,247)**	**(11,494)**	**(13,334)**	**(3,532)**	**(776)**	**(37,383)**
Disposal	**–**	**(300)**	**–**	**–**	**–**	**–**	**(300)**
Closing net book amount	**2,145,925**	**50,447**	**21,412**	**86,169**	**9,321**	**8,020**	**2,321,294**
At 31 December 2018							
Cost	**2,145,925**	**79,908**	**67,867**	**194,664**	**25,334**	**11,941**	**2,525,639**
Accumulated amortization	**–**	**(29,461)**	**(46,455)**	**(108,495)**	**(16,013)**	**(3,921)**	**(204,345)**
Net book amount	**2,145,925**	**50,447**	**21,412**	**86,169**	**9,321**	**8,020**	**2,321,294**

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 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 (Note 4)	–	(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	–	(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 certain 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.

Amortization of system development, software and other license costs for the Continuing Operations of US$5,945,000 (2017: US$3,356,000) and US$2,302,000 (2017: US$4,991,000) 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	
	2018 US$'000	2017 US$'000
Services	**1,529,817**	1,468,517
Products	**616,108**	699,561
	2,145,925	2,168,078

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 2018						
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
Year ended 31 December 2018						
Opening net book amount	1,198	55,049	66,450	82,807	2,717	208,221
Continuing Operations						
Exchange differences	(57)	(1,611)	(2,457)	(1,819)	(25)	(5,969)
Additions	–	20,967	21,541	29,174	111	71,793
Disposals	(129)	(55)	(2,951)	(2,696)	(160)	(5,991)
Depreciation (Note 4)	(64)	(15,908)	(17,239)	(13,437)	(1,142)	(47,790)
Closing net book amount	948	58,442	65,344	94,029	1,501	220,264
At 31 December 2018						
Cost	969	158,892	102,508	122,554	2,712	387,635
Accumulated depreciation	(21)	(100,450)	(37,164)	(28,525)	(1,211)	(167,371)
Net book amount	948	58,442	65,344	94,029	1,501	220,264

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 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 (Note 4)	–	–	(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	(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

Depreciation for the Continuing Operations of US$21,900,000 (2017: US$17,555,000), US$25,883,000 (2017: US$21,436,000) and US$7,000 (2017: US$26,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2018 and 2017, the Group had no land and buildings pledged as security for bank borrowings.

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:

	2018 US$'000	2017 US$'000
Beginning of the year	**67**	127
Disposals	**(49)**	(54)
Amortization (Note 4)	**(1)**	(7)
Exchange differences	**(1)**	1
End of the year	**16**	67

Amortization of US$1,000 (2017:US$7,000) has been expensed in selling and distribution expenses.

14 Associated Companies

	2018 US$'000	2017 US$'000
Beginning of the year	**12,393**	11,005
Share of profits less losses of associated companies	**873**	2,173
Disposals	**(6,992)**	–
Dividends received	**(1,416)**	(821)
Exchange differences	**410**	36
Total interests in associated companies	**5,268**	12,393

Details of principal associated companies are set out in Note 42.

15 Joint Venture

	2018 US$'000	2017 US$'000
Beginning of the year	**996**	760
Capital injection	**–**	529
Share of loss of the joint venture	**(668)**	(275)
Exchange differences	**46**	(18)
Total interest in the joint venture	**374**	996

Details of the joint venture is set out in Note 42.

16 Financial Assets at Fair Value through Other Comprehensive Income

	2018 US$'000	2017* US$'000
Reclassified from available-for-sale financial assets upon adoption of HKFRS 9	**4,338**	–
Additions	**129**	–
Fair value gains (Note 25)	**134**	–
End of the year	**4,601**	–

Financial assets at fair value through other comprehensive income are club debentures (Note 38) and denominated in HK dollar.

* These investments were classified as available-for-sale in 2017.

Financial assets previously classified as available-for-sale financial assets (2017):

	2018 US$'000	2017 US$'000
Beginning of the year	**–**	4,164
Fair value gains on available-for-sale financial assets, net of tax (Note 25)	**–**	174
End of the year	**–**	4,338

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

17 Inventories

	2018 **US$'000**	2017 US$'000
Finished goods	**200,486**	142,790
Raw materials	**5,391**	5,013
	205,877	147,803

18 Due from/(to) Related Companies

	2018 **US$'000**	2017 US$'000
Trade (Note (a))		
Due from:		
Associated companies	**58**	4,879
Other related companies (Note (c))	**633,697**	450,714
	633,755	455,593
Non-trade (Note (b))		
Due from:		
Associated companies	**342**	877
Other related companies (Note (d))	**74,765**	6,693
	75,107	7,570
	708,862	463,163
Due to:		
Other related companies	**(37,809)**	(124)

NOTES:

(a) As at 31 December 2018, trade balances due from related companies of US$537,749,000 were current or less than 90 days past due. Amounts past due over 90 days were US$96,006,000.

(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.

(c) This item included an amount due from Global Brands Group of which approximately US$154 million was arisen from purchases made by Global Brands Group on behalf of its divested business sold to an independent third party who makes purchase orders through Global Brands Group as part of the transitional arrangement.

(d) Part of the amount was arisen from transitional payments made on behalf of LH Pegasus as well as payments LH Pegasus made on the Group's behalf after the strategic divestment.

19 Derivative Financial Instruments

	2018 US$'000	2017 US$'000
Forward foreign exchange contracts		
–assets/(liabilities) (Note 38)	**3,985**	(5,355)

Gain in equity of US$4,631,000 (2017: US$226,000) on forward foreign exchange contracts as of 31 December 2018 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 2018 and 2017, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

20 Trade and Other Receivables

	2018 US$'000	2017 US$'000
Trade and bills receivable – net	**1,040,236**	1,148,560
Other receivables, prepayments and deposits	**206,212**	177,990
	1,246,448	1,326,550
Less: non-current portion other receivables, prepayments and deposits	**(26,663)**	(27,738)
	1,219,785	1,298,812

The fair values of the Group's trade and other receivables were approximately the same as their carrying values as at 31 December 2018.

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:

	2018 US$'000	2017 US$'000
Up to 90 days	**905,138**	1,058,741
91 to 180 days	**97,862**	72,515
181 to 360 days	**18,625**	11,115
Over 360 days	**18,611**	6,189
	1,040,236	1,148,560

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)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

As of 31 December 2017, trade receivables of US$1,130,958,000 that were current or less than 90 days past due were not considered impaired. Trade receivables of US$17,602,000 were past due over 90 days but not considered to be impaired. As of 31 December 2018, trade receivables of US$1,003,693,000 were current or less than 90 days past due. Trade receivables of US$36,543,000 were past due over 90 days. These mainly relate to a number of independent customers for whom there is no recent history of default, and a customer who had dispute with the Group. The dispute has subsequently been resolved with a settlement plan agreed and executed after the year end. The past due ageing of these trade receivables is as follows:

	2018 US$'000	2017 US$'000
91 to 180 days	**10,474**	6,998
Over 180 days	**26,069**	10,604
	36,543	17,602

As of 31 December 2018, outstanding trade receivables of US$49,040,000 (31 December 2017: US$11,765,000) and other receivables of US$2,240,000 (31 December 2017: US$3,315,000) were fully provided for.

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

	2018 US$'000	2017 US$'000
As at 1 January	**15,080**	74,051#
Continuing Operations		
Increase in provision for impairment (Note 4)	**37,508**	3,416
Receivables written off	**(814)**	(60,068)
Reversal of provision for impairment (Note 4)	**(155)**	(1,341)
Exchange difference	**(339)**	186
Discontinued Operations		
Increase in provision for impairment	**–**	6,510
Receivables written off	**–**	(952)
Reversal of provision for impairment	**–**	(42)
Classified as assets held for sale	**–**	(6,680)
As at 31 December	**51,280**	15,080#

Calculated under HKAS 39.

20 Trade and Other Receivables (continued)

Increase and reversal of provision for impairment for trade and other receivables have been included in "Selling and distribution expenses" in the consolidated profit and loss account (Note 4). Amounts charged to the provision for impairment 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.

As at 31 December 2018, no bills receivable balances (2017: US$1,724,000) were transferred to banks in exchange for cash. 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:

	2018 US$'000	2017 US$'000
US dollar	**782,212**	939,738
HK dollar	**99,841**	55,131
Euro	**75,562**	52,982
Pound sterling	**15,085**	28,618
Renminbi	**100,252**	92,507
Philippine Peso	**43,814**	39,620
Thailand Baht	**22,800**	15,328
Others	**80,219**	74,888
	1,219,785	1,298,812

The Group has recognized return assets in relation to expected refunds from customers amounting to US$9,248,000 (31 December 2017: US$11,380,000).

21 Cash and Cash Equivalents

	2018 US$'000	2017 US$'000
Cash and bank balances	**612,391**	348,940

The effective interest rate at the balance sheet date on bank balances was 0.9% (2017: 0.8%) per annum, these deposits have an average maturity period of 4 days (2017: 2 days).

22 Trade and Other Payables

	2018 US$'000	2017 US$'000
Trade and bills payable	**1,736,817**	1,733,661
Accrued charges and sundry payables	**592,868**	468,089
	2,329,685	2,201,750

The fair values of the Group's trade and other payables were approximately the same as their carrying values as at 31 December 2018.

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

	2018 US$'000	2017 US$'000
Up to 90 days	**1,592,934**	1,645,884
91 to 180 days	**109,264**	66,176
181 to 360 days	**18,072**	9,552
Over 360 days	**16,547**	12,049
	1,736,817	1,733,661

The Group has recognized revenue related contract liabilities and refund liabilities amounting to US$16,722,000 and US$48,242,000 respectively. (31 December 2017: US$38,722,000 and US$57,466,000 respectively).

23 Bank Borrowings

	2018 US$'000	2017 US$'000
Long-term bank loan		
– Unsecured (Note 27)	**1,034**	1,558
Short-term bank loans		
– Unsecured	**272,951**	22,970
Total bank borrowings	**273,985**	24,528

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2018.

23 Bank Borrowings (continued)

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

	2018				2017		
	PHP	**IDR**	**USD**	**Others**	PHP	IDR	Others
Long-term bank loan	**–**	**–**	**–**	**10.0%**	–	–	10.0%
Short-term bank loans	**5.8%**	**8.6%**	**3.0%**	**5.1%**	3.1%	6.6%	2.2%

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:

	2018 US$'000	2017 US$'000
US dollar	**250,000**	–
Philippine Peso	**12,427**	11,469
Indonesian Rupiah	**6,141**	4,736
Others	**5,417**	8,323
	273,985	24,528

24 Share Capital, Share Options and Award Shares

	No. of shares (in thousand)	**HK$'000**	**Equivalent US$'000**
Authorized			
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
At 1 January 2018, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 31 December 2018, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
Issued and fully paid			
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 [1]	54,509	681	87
At 31 December 2017, ordinary shares of HK$0.0125 each	8,469,956	105,874	13,574
At 1 January 2018, ordinary shares of HK$0.0125 each	8,469,956	105,874	13,574
Issue of new Shares of HK$0.0125 each pursuant to Share Award Scheme [2]	36,630	458	59
At 31 December 2018, ordinary shares of HK$0.0125 each	8,506,586	106,332	13,633

NOTES:

(1) The closing market price per Share on the date of issue of new share on 13 July 2017 was HK$2.83 per Share.

(2) The closing market price per Share on the date of issue of new share on 23 August 2018 was HK$2.51 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 2018 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Exercisable Period	As at 1/1/2018	Granted	Lapsed	As at 31/12/2018
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	–	(1,634,000)	27,093,000
21/5/2015	7.49	1/1/2018–31/12/2019	28,878,000	–	(1,634,000)	27,244,000
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	–	–	285,000
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	–	604,000
19/5/2016	4.27	1/1/2018–31/12/2019	604,000	–	–	604,000
13/7/2017	2.86	1/1/2018–31/12/2019	125,000	–	–	125,000
		Total	98,893,000	–	(32,938,000)	65,955,000

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 2018, no shares have been allotted and issued under the Share Option Schemes.

The Share Options outstanding at 31 December 2018 had a weighted average remaining contractual life of 0.79 years (2017: 1.25 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	19/5/2016	13/7/2017
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 2018 are as follows:

Grant Date	Fair Value per Share HK$	Vesting Date	Number of Award Shares As at 1/1/2018	Granted	Vested	Unvested/ forfeited	As at 31/12/2018
21/5/2015	7.49	31/12/2018	11,461,100	–	(10,057,100)	(1,404,000)	–
21/5/2015	7.49	31/12/2019	5,758,300	–	–	(706,100)	5,052,200
16/11/2015	5.33	31/12/2018	260,800	–	(230,500)	(30,300)	–
16/11/2015	5.33	31/12/2019	189,000	–	–	(23,800)	165,200
19/5/2016	4.27	31/12/2018	323,000	–	(277,600)	(45,400)	–
19/5/2016	4.27	31/12/2019	316,500	–	–	(42,800)	273,700
14/11/2016	3.53	31/12/2018	61,100	–	(53,700)	(7,400)	–
14/11/2016	3.53	31/12/2019	61,100	–	–	(7,400)	53,700
13/7/2017	2.83	31/12/2018	22,361,400	–	(19,906,800)	(2,454,600)	–
13/7/2017	2.83	31/12/2019	21,574,400	–	–	(2,312,600)	19,261,800
13/7/2017	2.83	31/12/2020	21,563,000	–	–	(2,312,000)	19,251,000
23/3/2018	3.87	31/12/2018	–	2,576,000	(2,553,000)	(23,000)	–
23/3/2018	3.87	31/12/2019	–	2,523,000	–	(17,000)	2,506,000
23/3/2018	3.87	31/12/2020	–	2,523,000	–	(17,000)	2,506,000
23/8/2018	2.51	31/12/2018	–	12,400	(11,600)	(800)	–
23/8/2018	2.51	31/12/2019	–	21,255,000	–	(673,400)	20,581,600
23/8/2018	2.51	31/12/2020	–	21,169,700	–	(668,200)	20,501,500
23/8/2018	2.51	31/12/2021	–	21,157,900	–	(667,600)	20,490,300
		Total	83,929,700	71,217,000	(33,090,300)	(11,413,400)	110,643,000

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 71,217,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 21,583,000 Award Shares were awarded to connected persons. A total of 13,305,300 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 300,900 Award Shares to connected persons and 13,004,400 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 21,282,100 Award Shares were purchased from the open market to satisfy awards to connected persons and 36,629,600 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 and the Scheme Mandate.

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 2018	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Other comprehensive (expenses)/income									
Currency translation differences	–	–	–	–	–	–	–	(17,949)	(17,949)
Realization of currency translation differences upon disposal of business	–	–	–	–	–	–	–	62,685	62,685
Reduction of capital reserves upon disposal of business	–	(1,452)	–	–	–	–	–	–	(1,452)
Net fair value gains on financial assets at fair value through other comprehensive income (Note 16)	–	–	–	–	134	–	–	–	134
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	–	4,405	–	–	4,405
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	–	–	–	–	(2,613)	–	(2,613)
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(7,577)	–	–	–	–	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	(59)	–	–	–	–	–	–	–	(59)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	16,759	–	–	–	–	16,759
– vesting of shares for Share Award Scheme	2,883	–	–	(18,681)	–	–	–	–	(15,798)
Transfer to capital reserve	–	24,981	–	–	–	–	–	–	24,981
2017 special dividend paid	–	–	(519,549)	–	–	–	–	–	(519,549)
Balance at 31 December 2018	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(207,821)	53,544

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 2017	(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

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 and the distribution of a special dividend of US$519,549,000 in 2018.

(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 Company redeemed US$500 million Perpetual Capital Securities issued on 8 November 2012 in full on 25 May 2018. The amounts as at 31 December 2018 and 2017 included the accrued distribution payments.

27 Long-term Liabilities

	2018 **US$'000**	2017 US$'000
Long-term bank loan – unsecured (Note 23)	**1,034**	1,558
Long-term notes – unsecured	**751,405**	752,432
Purchase consideration payable for acquisitions	**8,960**	61,583
Other non-current liabilities	**25,861**	27,476
	787,260	843,049
Current portion of purchase consideration payable for acquisitions	**(819)**	(42,166)
	786,441	800,883

Unsecured long-term notes issued to independent third parties in 2010 of US$751,405,000 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 2018 amounted to US$8,960,000 (2017: US$61,583,000), of which US$6,758,000 (2017: US$44,162,000) was primarily earn-out and US$2,202,000 (2017: US$17,421,000) 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:

	2018 **US$'000**	2017 US$'000
Within 1 year	**819**	42,166
Between 1 and 2 years	**758,884**	15,730
Between 2 and 5 years	**7,370**	763,311
Wholly repayable within 5 years	**767,073**	821,207
Over 5 years	**20,187**	21,842
	787,260	843,049

27 Long-term Liabilities (continued)

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

	2018 US$'000	2017 US$'000
Long-term bank loan – unsecured	**1,034**	1,558
Long-term notes – unsecured	**761,213**	784,395
Purchase consideration payable for acquisitions	**8,141**	19,417
Other non-current liabilities	**25,861**	27,476
	796,249	832,846

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

	2018 US$'000	2017 US$'000
US dollar	**758,848**	802,048
Pound sterling	**6,459**	12,935
Others	**21,953**	28,066
	787,260	843,049

28 Post-employment Benefit Obligations

	2018 US$'000	2017 US$'000
Pension obligations (Note)	**10,503**	13,177
Long-service payment liabilities	**1,089**	988
	11,592	14,165

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.

28 Post-employment Benefit Obligations (continued)

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

	2018 US$'000	2017 US$'000
Present value of funded obligations	**34,336**	41,978
Fair value of plan assets	**(23,833)**	(28,801)
Net liabilities in the consolidated balance sheet	**10,503**	13,177

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

	2018 US$'000	2017 US$'000
Current service cost	**1,341**	1,450
Past service cost and losses/(gains) on settlements	**9**	(105)
Administrative expenses paid	**82**	64
Net interest expense	**250**	423
Total, included in staff costs (Note 9)	**1,682**	1,832

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

	2018 US$'000	2017 US$'000
At 1 January	**28,801**	20,870
Interest income	**502**	490
Exchange differences	**(1,167)**	1,738
Administrative expenses paid	**(82)**	(64)
Contributions	**1,952**	7,073
Benefits paid	**(5,157)**	(2,496)
Actuarial (losses)/gains on plan assets	**(1,016)**	1,190
At 31 December	**23,833**	28,801

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

	2018 US$'000	2017 US$'000
At 1 January	**41,978**	39,430
Current service cost	**1,341**	1,450
Interest cost	**752**	913
Past service cost and losses/(gains) on settlements	**9**	(105)
Actuarial gains from changes in experiences	**(372)**	(547)
Actuarial (gains)/losses from changes in financial assumptions	**(733)**	1,288
Actuarial (gains)/losses from changes in demographic assumptions	**(2)**	16
Exchange differences	**(1,749)**	3,006
Benefits paid	**(6,888)**	(3,473)
At 31 December	**34,336**	41,978

28 Post-employment Benefit Obligations (continued)

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

	2018 US$'000	2017 US$'000
At 1 January	**13,177**	18,560
Exchange differences	**(582)**	1,268
Total expense charged in the consolidated profit and loss account	**1,682**	1,832
Remeasurement gains recognized in other comprehensive income	**(91)**	(433)
Contributions paid	**(1,952)**	(7,073)
Benefits paid	**(1,731)**	(977)
At 31 December	**10,503**	13,177

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

	2018 %	2017 %
Discount rate	**0.9–8.1**	0.9–6.9
Salary growth rate	**2.4–8.0**	2.4–8.0
Pension growth rate	**2.4–6.0**	1.0–4.5

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%**	**–2.49%**	**+2.61%**

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

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

28 Post-employment Benefit Obligations (continued)

(vii) Plan assets comprised:

	2018 US$'000	2017 US$'000
Quoted assets		
Cash and cash equivalents	**9,549**	12,584
Equity instruments		
European	**2,330**	2,947
American	**516**	625
Asian	**909**	980
Global	**44**	138
Debt instruments		
Government securities	**5,453**	6,092
Other securities and debt instruments	**3,864**	3,908
Investment funds		
Unit investment trust funds	**557**	620
Investment bond funds	**438**	688
Mutual funds	**19**	41
Others	**154**	178
	23,833	28,801

The weighted average duration of the defined benefit obligation ranges from 5.2 to 20.6 years.

28 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

At 31 December 2018	Within 10 years US$'000	Between 10–20 years US$'000	Beyond 20 years US$'000
Expected benefit payments	**21,988**	**22,629**	**22,244**

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

Investment risk	The defined benefit pension holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The defined benefit pension's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used. As the defined benefit pension holds assets such as equities, the value of the assets and liabilities may not move in the same way.
Inflation risk	A significant proportion of the benefits under the defined benefit pension are linked to inflation. Although the defined benefit pension's assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to deficits emerging.
Mortality risk	In the event that members live longer than assumed, a deficit will emerge in the defined benefit pension.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

29 Deferred Taxation

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

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

	2018 **US$'000**	2017 US$'000
At 1 January	**(12,763)**	12,532
Continuing Operations		
Charged/(credited) to consolidated profit and loss account (Note 6)	**381**	(1,676)
Charged/(credited) to other comprehensive income	**192**	(1,458)
Charged/(credited) to hedging reserve	**2,013**	(3,313)
Exchange differences	**564**	(3,463)
Discontinued Operations		
Credited to consolidated profit and loss account	**–**	(2,205)
Acquisition of business	**–**	489
Exchange differences	**–**	394
Classified as assets held for sale	**–**	(14,063)
At 31 December	**(9,613)**	(12,763)

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$263,299,000 (2017: US$186,467,000) to carry forward against future taxable income, out of which US$2,300,000 will expire during 2019-2023. 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	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
At 1 January	**11,064**	20,202	**1,214**	7,715	**18,465**	13,925	**6,741**	4,677	**37,484**	46,519
Continuing Operations										
(Charged)/credited to consolidated profit and loss account	**(4,962)**	(9,619)	**(337)**	(2,597)	**832**	7,957	**1,621**	770	**(2,846)**	(3,489)
(Charged)/credited to other comprehensive income	**–**	–	**–**	–	**–**	–	**(192)**	1,458	**(192)**	1,458
Exchange differences	**(479)**	3,360	**(87)**	209	**(206)**	576	**77**	20	**(695)**	4,165
Discontinued Operations										
(Charged)/credited to consolidated profit and loss account	**–**	(852)	**–**	(412)	**–**	454	**–**	201	**–**	(609)
Acquisition of business	**–**	468	**–**	–	**–**	–	**–**	–	**–**	468
Exchange differences	**–**	276	**–**	170	**–**	308	**–**	28	**–**	782
Classified as assets held for sale	**–**	(2,771)	**–**	(3,871)	**–**	(4,755)	**–**	(413)	**–**	(11,810)
At 31 December	**5,623**	11,064	**790**	1,214	**19,091**	18,465	**8,247**	6,741	**33,751**	37,484

29 Deferred Taxation (continued)

	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
Deferred Tax Liabilities	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
At 1 January	**6,854**	5,160	**17,288**	50,528	**579**	3,363	**24,721**	59,051
Continuing Operations								
Charged/(credited) to consolidated profit and loss account	**718**	2,057	**(2,685)**	(7,471)	**(498)**	249	**(2,465)**	(5,165)
Charged/(credited) to hedging reserve	**–**	–	**–**	–	**2,013**	(3,313)	**2,013**	(3,313)
Exchange differences	**144**	143	**(271)**	25	**(4)**	534	**(131)**	702
Discontinued Operations								
Credited to consolidated profit and loss account	**–**	(20)	**–**	(2,654)	**–**	(140)	**–**	(2,814)
Acquisition of business	**–**	–	**–**	957	**–**	–	**–**	957
Exchange differences	**–**	111	**–**	1,026	**–**	39	**–**	1,176
Liabilities associated with assets classified as held for sale	**–**	(597)	**–**	(25,123)	**–**	(153)	**–**	(25,873)
At 31 December	**7,716**	6,854	**14,332**	17,288	**2,090**	579	**24,138**	24,721

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

	2018 US$'000	2017 US$'000
Deferred tax assets	**11,711**	17,456
Deferred tax liabilities	**(2,098)**	(4,693)
	9,613	12,763

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

	2018 US$'000	2017 US$'000
Deferred tax assets to be recovered after more than 12 months	**8,368**	9,893
Deferred tax assets to be recovered within 12 months	**3,343**	7,563
Deferred tax liabilities to be settled after more than 12 months	**1,131**	4,603
Deferred tax liabilities to be settled within 12 months	**967**	90

30 Notes to the Consolidated Cash Flow Statement

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

	2018 US$'000	2017 US$'000
Profit before taxation	**201,510**	274,470
Interest income	**(10,608)**	(12,261)
Interest expenses	**56,190**	69,761
Depreciation	**47,790**	39,017
Amortization of system development, software and other license costs	**8,247**	8,347
Amortization of other intangible assets	**29,136**	23,327
Amortization of prepaid premium for land leases	**1**	7
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	**(205)**	(1,898)
Employee share option and share award expenses	**13,744**	13,020
Net loss/(gain) on disposal of property, plant and equipment and prepaid premium for land leases	**3,663**	(953)
Loss on disposal of software	**300**	–
Gain on remeasurement of contingent consideration payable	**(8,948)**	(31,492)
Operating profit before working capital changes	**340,820**	406,835
(Increase)/decrease in inventories	**(58,074)**	20,411
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	**(183,375)**	93,728
Increase/(decrease) in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	**154,365**	(161,355)
Net cash inflow generated from operations	**253,736**	359,619

30 Notes to the Consolidated Cash Flow Statement (continued)

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

	2018			2017		
	Share capital including share premium US$'000 (Note 24 & 39(a))	Bank loans US$'000	Long-term notes US$'000	Share capital including share premium US$'000 (Note 24 & 39(a))	Bank loans US$'000	Long-term notes US$'000
At 1 January	**742,101**	**24,528**	**752,432**	728,023	29,180	1,253,277
Non-cash movement:						
Issue of shares for Share Award Scheme	**59**	**–**	**–**	87	–	–
Vesting of shares for Share Award Scheme	**15,798**	**–**	**–**	13,991	–	–
Non-cash interest	**–**	**–**	**(1,027)**	–	–	(845)
	757,958	**24,528**	**751,405**	742,101	29,180	1,252,432
Continuing Operations						
Net drawdown/(repayment) of bank loans	**–**	**249,981**	**–**	–	(938)	–
Repayment of long-term notes	**–**	**–**	**–**	–	–	(500,000)
Accrued interest	**–**	**15,698**	**39,735**	–	16,753	49,724
Interest paid	**–**	**(15,698)**	**(39,735)**	–	(16,753)	(49,724)
Exchange difference	**–**	**(524)**	**–**	–	–	–
Discontinued Operations						
Net drawdown of bank loans	**–**	**–**	**–**	–	1,647	–
Acquisition of businesses	**–**	**–**	**–**	–	171	–
Accrued interest	**–**	**–**	**–**	–	2,782	–
Interest paid	**–**	**–**	**–**	–	(2,782)	–
Liabilities associated with assets classified as held for sale	**–**	**–**	**–**	–	(5,532)	–
At 31 December	**757,958**	**273,985**	**751,405**	742,101	24,528	752,432

31 Discontinued Operations

The results of the Discontinued Operations 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.

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

	2018 US$'000	2017 US$'000
Turnover	**382,235**	1,926,795
Cost of sales	**(298,146)**	(1,470,150)
Gross profit	**84,089**	456,645
Selling and distribution expenses	**(27,294)**	(120,575)
Merchandising and administrative expenses	**(78,391)**	(257,843)
Core operating (loss)/profit	**(21,596)**	78,227
Amortization of other intangible assets	**(3,682)**	(13,659)
Operating (loss)/profit	**(25,278)**	64,568
Interest income	**157**	563
Interest expenses	**(1,068)**	(2,782)
(Loss)/profit before taxation	**(26,189)**	62,349
Taxation	**825**	(13,031)
(Loss)/profit after taxation	**(25,364)**	49,318
Remeasurement loss on assets classified as held for sale	**–**	(592,363)
Loss on disposal of business and others (Note 31(e))	**(114,433)**	–
Loss for the year	**(139,797)**	(543,045)
Attributable to:		
Shareholders of the three Product Verticals	**(136,799)**	(544,991)
Non-controlling interest	**(2,998)**	1,946
	(139,797)	(543,045)

31 Discontinued Operations (continued)

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

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	2018 US$'000	2017 US$'000
Loss for the year	**(139,797)**	(543,045)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**15,409**	28,157
Net fair value gains on cash flow hedges, net of tax	**–**	38
Total items that may be reclassified subsequently to profit or loss	**15,409**	28,195
Total other comprehensive income for the year, net of tax	**15,409**	28,195
Total comprehensive expense for the year	**(124,388)**	(514,850)
Attributable to:		
Shareholders of the three Product Verticals	**(121,390)**	(516,796)
Non-controlling interest	**(2,998)**	1,946
	(124,388)	(514,850)

(b) Geographical analysis of turnover of the Discontinued Operations

The turnover consists of sales to United States of America of US$186,326,000 (2017: US$1,010,500,000), Europe of US$105,993,000 (2017: US$558,522,000), Asia of US$65,608,000 (2017: US$239,961,000) and Rest of the world US$24,308,000 (2017: US$117,812,000).

31 Discontinued Operations (continued)

(c) Operating Profit of the Discontinued Operations

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

	2018 US$'000	2017 US$'000
Charging/(crediting)		
Cost of inventories sold	**298,146**	1,470,150
Amortization of system development, software and other license costs	**515**	2,633
Amortization of other intangible assets (excluded from the core operating profit)	**3,682**	13,659
Depreciation of property, plant and equipment	**3,251**	9,263
Loss on disposal of property, plant and equipment	**–**	241
Operating leases rental in respect of land and building	**–**	14,237
Increase in provision for impairment of trade and other receivables	**693**	6,468
Staff costs	**36,906**	161,276
Net exchange gains	**–**	(795)
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:

	2018 US$'000	2017 US$'000
Audit services	**–**	960
Non-audit services		
– due diligence reviews on acquisitions	**–**	61
– taxation services	**–**	549
– others	**–**	620
Total remuneration to auditors charged to Discontinued Operations profit and loss account	**–**	2,190

NOTE:
For the year ended 31 December 2017, audit fee and non-audit fee of US$922,000 and US$1,230,000 respectively were payable to the Company's auditor.

31 Discontinued Operations (continued)

(d) Disposed net assets of the Discontinued Operations at the date of disposal as follows:

	US$'000
Intangible assets	**1,632,176**
Property, plant and equipment	**40,394**
Other non-current assets	**9,556**
Trade and other receivables	**170,313**
Inventories	**130,268**
Cash and bank balances	**128,826**
Other current assets	**45**
Trade and other payables	**(236,687)**
Other current liabilities	**(16,112)**
Other non-current liabilities	**(92,410)**
	1,766,369
Remeasurement loss recognized in previous year	**(592,363)**
	1,174,006
Less: Non-controlling interest	**(6,226)**
Net assets disposed	**1,167,780**

(e) An analysis of loss on disposal of business of the Discontinued Operations is as follows:

	US$'000
Considerations on disposal of business	**1,100,000**
Cash and cash equivalents adjustment for disposal of business	**128,826**
Debt released, transaction costs and other closing adjustments for disposal of business	**(95,073)**
Less: Net assets disposed	**(1,167,780)**
Exchange reserve and others	**(80,406)**
Loss on disposal of business	**(114,433)**

31 Discontinued Operations (continued)

(f) Assets and Liabilities of the Discontinued Operations

The assets and liabilities related to the Discontinued Operations had been presented as assets classified as held for sale and liabilities associated with assets classified as held for sale as at 31 December 2017. 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:

		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

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

	2018 US$'000	2017 US$'000
Net cash (outflow)/inflow from operating activities	**(69,698)**	258,647
Net cash outflow from investing activities	**(3,981)**	(6,038)
Net cash outflow from financing activities*	**(125)**	(1,135)
Total cash flow	**(73,804)**	251,474

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

31 Discontinued Operations (continued)

(h) Related Party Transactions

The Discontinued Operations has the following related party transactions during the year ended 31 December 2018:

	2018 US$'000	2017 US$'000
Distribution and sales of goods	**16**	883

Pursuant to the master distribution and sales of goods agreement entered into on 5 December 2014 with FH (1937), 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. Saved as disclosed above, 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

	2018 US$'000	2017 US$'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 26 years. At 31 December 2018, the Continuing Operations of the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 US$'000	2017 US$'000
Within one year	**150,733**	145,887
In the second to fifth year inclusive	**260,396**	286,877
After the fifth year	**66,211**	83,291
	477,340	516,055

(b) Capital Commitments from Continuing Operations

	2018 US$'000	2017 US$'000
Contracted but not provided for:		
Property, plant and equipment	**14,248**	4,510
System development, software and other license costs	**2,756**	5,030
	17,004	9,540

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 2018 and 2017.

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 2018 and 2017:

	Note	**2018 US$'000**	2017 US$'000
Distribution and sales of goods	(i)	**19,479**	14,954
Operating leases rental and license fee paid	(ii)	**21,206**	24,437
Operating leases rental and license fee received	(ii)	**4,393**	1,370
Sourcing and supply chain management services income	(iii)	**1,363,013**	1,328,648
Logistics related services income	(iv)	**16,725**	16,598
Sourcing and supply chain management services income	(v)	**13,692**	48,630
Service fee received	(vi)	**20,500**	–
Rental and license fee paid	(vii)	**93**	–
Rental income	(vii)	**2,327**	–
Ancillary sourcing and logistics income	(viii)	**3,940**	–
Underlying FOB value of ordered products	(viii)	**49,479**	–
Office administrative expenses reimbursement	(ix)	**27,167**	–
Office administrative expenses paid	(x)	**11,818**	–

(i) Pursuant to the master distribution and sales of goods agreements entered into on 5 December 2014 and 17 November 2017 with FH (1937) for a term of three years ending 31 December 2017 and 2020 respectively, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(ii) Pursuant to the master agreement for leasing of properties 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 2018, aggregate operating lease rental and license fee paid to and from one another approximated US$25,599,000 (2017: US$25,807,000).

(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 2018, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income, consisting of commission and FOB of all products and components sourced, of approximately US$1,363,013,000 (2017: US$1,328,648,000).

(iv) Pursuant to the master agreement for provision of logistics related services entered into on 20 August 2015 and 17 November 2017, 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 US$16,725,000 (2017: US$16,598,000).

35 Related Party Transactions from Continuing Operations (continued)

(v) 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 period from 1 January 2018 to 17 April 2018, the commission received for sourcing and supply chain management services to Trinity was US$1,522,000 (2017: US$5,219,000) and the underlying FOB value of the ordered products was US$12,170,000 (2017: US$43,411,000). The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules until 18 April 2018 when Trinity ceased to be a related party.

(vi) Pursuant to the service agreement entered into with LH Pegasus Holding Limited ("LH Pegasus") on 3 April 2018, the Group provided certain back office function related to IT, human resources, finance and accounting, corporate services and global transaction services to LH Pegasus and its subsidiaries for a term from 3 April 2018 to 31 December 2019. For the period from 3 April 2018 to 31 December 2018, aggregate service fee received was US$20,500,000 (2017: Nil).

(vii) Pursuant to the master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license to and from one another for certain sub-lease and license office, showroom and warehouse premises for a term from 3 April 2018 to 31 December 2020. For the period from 3 April 2018 to 31 December 2018 with an aggregate amount of US$2,420,000 (2017: Nil).

(viii) Pursuant to the ancillary sourcing, logistics and trading services agreement entered into with LH Pegasus on 3 April 2018 for a term from 3 April 2018 to 31 December 2020. The Group provided agency-based sourcing and logistics services to LH Pegasus. LH Pegasus provided principal trading services to the Group. For the period from 3 April 2018 to 31 December 2018, aggregate amount of the Group's ancillary sourcing income, logistics services income excluding the pass-through costs for direct freight forwarding and trading services expenses including the underlying FOB value of the ordered products was approximately US$53,419,000 (2017: Nil).

(ix) For the period from 1 January 2018 to 31 October 2018, the Group charged FH (1937) for costs incurred on certain centralized office support functions (including corporate services, regional information technology support and human resources) on an actual costs recovery basis, amounting to US$27,167,000 for the year ended 31 December 2018 (2017: Nil).

(x) Pursuant to a services agreement entered into with Fung Corporate Services Group Limited ("FCSG") in November 2018 ("Services Agreement"), certain employees of the Group who provide centralized office support functions were transferred to FCSG to consolidate centralized offices support functions among different Fung Group companies. Based on the specific services provided under the Services Agreement, FCSG charged the Group on an actual costs recovery basis, amounting to US$11,818,000 for the period from 1 November to 31 December 2018 (2017: Nil).

Other than (ix) and (x), 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 into 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 hedges 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.

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 Group's 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, the Group manages its operations in the most cost-effective way possible within the global network. The Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2018, if the major foreign currencies, such as Euro and Pound sterling, to which the Group had exposure had strengthened/weakened by 10% (2017: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 0.3% lower/higher (2017: 1.1% higher/lower) and 2.9% higher/lower (2017: 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.

36 Financial Risk Management (continued)

(a) Market Risk (continued)

(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 financial assets at fair value through other comprehensive income (FVOCI). 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 2018 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 2018, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$3,985,000 (2017: derivative financial liabilities of US$5,355,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises mainly from US dollar denominated bank borrowings and the US dollar denominated long-term notes issued. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. The Group's policy is to maintain a diversified mix of variable and fixed rate borrowings based on prevailing market conditions.

At 31 December 2018, 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$634,000 (2017: US$1,076,000) 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 37% of the Group's Continuing and Discontinued business. Transactions with these customers are entered into within the credit limits designated by the Group.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

For the trade receivables from third parties, the counterparties have strong financial position and management considers the credit risk is not high. The Group maintains frequent communications with the counterparties. Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal in view of the history of cooperation with them and forward-looking information.

For the trade receivables not covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers, the provision for impairment was determined as follows:

	Less than 30 days	31 to 60 days	61 to 120 days	121 to 180 days	181 to 330 days	More than 331 days
Expected loss rate	0.1%	2%	5%	34%	34%	100%

The provision for impairment for trade receivables during the year was set out in Note 20.

36 Financial Risk Management (continued)

(b) Credit Risk (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 331 days past due.

Impairment losses on trade receivables are presented as net impairment losses within core operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

PREVIOUS ACCOUNTING POLICY FOR IMPAIRMENT OF TRADE RECEIVABLES

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. The Group considered that there was evidence or impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization
- default or late payment

Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

The impairment loss of other financial assets carried at amortized cost is measured based on the twelve months expected credit loss. As at 31 December 2018, trade receivables of US$49,040,000 (2017: US$11,765,000) and other receivables of US$2,240,000 (2017: US$3,315,000) have been provided for, none of the other financial assets including financial assets at fair value through other comprehensive income (Note 16) and due from related companies (Note 18) have been provided for 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 2018				
Purchase consideration payable for acquisitions	**819**	**5,192**	**4,034**	**–**
Long-term bank loan – unsecured	**–**	**1,034**	**–**	**–**
Long-term notes – unsecured	**39,375**	**769,688**	**–**	**–**
Trade and bills payable	**1,736,817**	**–**	**–**	**–**
Accrued charges and sundry payables	**592,868**	**–**	**–**	**–**
Financial guarantee contract	**750**	**–**	**–**	**–**
Due to related companies	**37,809**	**–**	**–**	**–**
Short-term bank loans – unsecured	**272,951**	**–**	**–**	**–**
Finance lease obligation	**1,139**	**1,860**	**5,579**	**15,615**
At 31 December 2017				
Purchase consideration payable for acquisitions	42,166	14,900	5,531	–
Long-term bank loan – unsecured	–	–	1,558	–
Long-term notes – unsecured	39,375	39,375	769,688	–
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 – unsecured	22,970	–	–	–
Finance lease obligation	1,133	1,904	5,712	17,893

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$166,295,000 (31 December 2017: US$248,798,000) and undiscounted contractual cash outflows of US$159,933,000 (31 December 2017: US$254,175,000).

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 2018 and 2017 were as follows:

	2018 **US$'000**	2017 US$'000
Long-term bank loan (Note 23)	**1,034**	1,558
Short-term bank loans (Note 23)	**272,951**	22,970
Long-term notes (Note 27)	**751,405**	752,432
	1,025,390	776,960
Less: Cash and cash equivalents (Note 21)	**(612,391)**	(348,940)
Net debt	**412,999**	428,020
Total equity	**1,869,429**	2,913,695
Total capital	**2,282,428**	3,341,715
Gearing ratio	**18%**	13%

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 2018.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Financial assets at fair value through other comprehensive income (Note 16)				
– Club debentures	**–**	**–**	**4,601**	**4,601**
Derivative financial instruments used for hedging (Note 19)	**–**	**3,985**	**–**	**3,985**
Total assets	**–**	**3,985**	**4,601**	**8,586**
Liabilities				
Purchase consideration payable for acquisitions (Note 27)	**–**	**–**	**8,960**	**8,960**
Total liabilities	**–**	**–**	**8,960**	**8,960**

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 instruments used for hedging (Note 19)	–	5,355	–	5,355
Purchase consideration payable for acquisitions (Note 27)	–	–	61,583	61,583
Total liabilities	–	5,355	61,583	66,938

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 2.5%.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018 and 2017.

	2018		2017	
	Purchase consideration payable for acquisitions	**Others**	Purchase consideration payable for acquisitions	Others
	US$'000	**US$'000**	US$'000	US$'000
Opening balance	**61,583**	**4,338**	161,536	4,164
Fair value gains	**–**	**134**	–	174
Additions	**–**	**129**	–	–
Settlement	**(42,889)**	**–**	(67,811)	–
Remeasurement of acquisitions payable	**(8,948)**	**–**	(31,492)	–
Others	**(786)**	**–**	(650)	–
Closing balance	**8,960**	**4,601**	61,583	4,338
Total gain for the year included in profit or loss	**8,948**	**–**	31,492	–

39 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December 2018 US$'000	2017 US$'000
Non-current assets			
Interests in subsidiaries		**1,132,210**	1,126,780
Current assets			
Due from subsidiaries		**4,502,273**	4,630,639
Due from related companies		**2,394**	–
Other receivables, prepayments and deposits		**570**	271
Cash and bank balances		**1,535**	590
		4,506,772	4,631,500
Current liabilities			
Due to subsidiaries		**488,166**	387,351
Accrued charges and sundry payables		**6,049**	6,088
		494,215	393,439
Net current assets		**4,012,557**	4,238,061
Total assets less current liabilities		**5,144,767**	5,364,841
Financed by:			
Share capital		**13,633**	13,574
Reserves	(a)	**3,724,042**	3,440,148
Shareholders' funds		**3,737,675**	3,453,722
Holders of perpetual capital securities		**655,687**	1,158,687
Total equity		**4,393,362**	4,612,409
Non-current liabilities			
Long-term notes		**751,405**	752,432
		5,144,767	5,364,841

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 2018	**728,527**	**(10,996)**	**974,189**	**66,043**	**1,682,385**	**3,440,148**
Profit for the year	**–**	**–**	**–**	**–**	**849,036**	**849,036**
Purchase of shares for Share Award Scheme	**–**	**(7,577)**	**–**	**–**	**–**	**(7,577)**
Issuance of shares for Share Award Scheme	**–**	**(59)**	**–**	**–**	**–**	**(59)**
Employee Share Option and Share Award Scheme:						
– value of employee services	**–**	**–**	**–**	**16,759**	**–**	**16,759**
– vesting of shares for Share Award Scheme	**15,798**	**2,883**	**–**	**(18,681)**	**–**	**–**
2017 final dividend paid	**–**	**–**	**–**	**–**	**(21,830)**	**(21,830)**
2017 special dividend paid	**–**	**–**	**(519,549)**	**–**	**–**	**(519,549)**
2018 interim dividend paid	**–**	**–**	**–**	**–**	**(32,886)**	**(32,886)**
Balance at 31 December 2018	**744,325**	**(15,749)**	**454,640**	**64,121**	**2,476,705**	**3,724,042**
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

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 and the distribution of a special dividend of US$519,549,000 in 2018.

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 2018:

	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	754	-	143	-	-	-	-	1,554
Spencer Theodore Fung	39	653	986	-	376	-	2	-	-	2,056
Marc Robert Compagnon	39	603	1,270	-	345	72	2	-	-	2,331
Joseph C. Phi (Note (iv))	39	603	952	-	315	29	2	-	-	1,940
Non-executive Directors										
Victor Fung Kwok King	58	-	-	-	-	-	-	-	-	58
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71
Martin Tang Yue Nien	71	-	-	-	-	-	-	-	-	71
Margaret Leung Ko May Yee	71	-	-	-	-	-	-	-	-	71
Cheung Chih Tin	52	-	-	-	-	-	-	-	-	52
John G. Rice (Note (v))	52	-	-	-	-	-	-	-	-	52

NOTES:

(i) The amounts are accrued discretionary bonuses for 2018.

(ii) Award Shares gain is determined based on the market price at the vesting date.

(iii) Other benefits include mortgage interest subsidy.

(iv) Appointed as Executive Director of the Company with effect from 10 January 2018.

(v) Appointed as Independent Non-executive Director of the Company with effect from 10 January 2018.

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 2017:

	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	1,453	–	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 of the Company with effect from 1 June 2017.

(v) Appointed as Independent Non-executive Director of the Company 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)

During the year, no Share (2017: Nil) was issued to any Directors under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2018, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
10,000,000 (2017: 12,000,000)	HK$12.12[1]	Exercisable in five equal tranches during the period from 1/5/2017 to 30/4/2023 with each tranche having an exercisable period of two years
12,894,000 (2017: 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 31 December 2018 was HK$1.23.

(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 (2017: 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 (2017: 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 (2017: 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

41 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 21 March 2019.

42 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
(1)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Manufacturing and trading
(1)	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(1)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	EUR9,000,000	100	Investment holding
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Chuan Jui Chuan Logistics Co., Ltd.	Taiwan	NT$25,000,000	100	Transportation
	Chuan Jui Fu Logistics Co., Ltd.	Taiwan	NT$25,000,000	100	Transportation
(1)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(1)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Comet Feuerwerk GmbH	Germany	EUR1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
(1)	Covo Design (Dongguan) Co., Ltd.	The People's Republic of China	US$4,000,000	100 foreign-owned enterprise	Sample production and exporting trading services
	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

42 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)	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)	DSG (Bangladesh) Limited	Bangladesh	Ordinary TK$3,750,000	100	Export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services
(1)	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	DSG (US) Inc.	U.S.A.	Common stock US$1	100	Sourcing service
(1)	Estuary Logistics Group Limited	England	Ordinary "A" GBP95 Ordinary "B" (Non-voting) GBP5	100	Investment holding
(1)	Estuary Logistics Limited	England	Ordinary "A" GBP200 Ordinary "B" (Non-voting) GBP100	100	Provision of logistics services
(1)	Fireworks Holding Limited	British Virgin Islands	Ordinary HK$1	100	Investment holding
	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	100	Export trading
(1)	Hanson Im-und Export GmbH	Germany	EUR26,000	100	Wholesaling
	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	YTL50,000	100	Manufacturing
(1)	IDS Group Limited	British Virgin Islands	Ordinary US$949,166	100	Investment holding
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	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

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
(1)	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 Inc.	U.S.A.	Common stock US$1	100	Investment holding
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services
	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 GBP26,788,002	100	Investment holding
	LF Europe Trading Limited	England	Ordinary GBP100	100	Service company
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Provision of management support services
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
(1)	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
	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

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	LF 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 Development (M) Sdn. Bhd.	Malaysia	Ordinary RM2	100	Investment holding
(1)	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 Holdings Limited (formerly known as LF Logistics Limited)	Bermuda	Ordinary US$100	100	Investment holding
	LF Logistics Management Limited	Hong Kong	Ordinary HK$426,509,031	100	Provision of management and consultancy services
(1)	LF Logistics Pakistan (Private) Limited	Pakistan	Ordinary Rs5,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	LF Logistics Services Pte. Ltd.	Singapore	Ordinary S$28,296,962	100	Provision of freight forwarding, warehousing and distribution services, agency and supply chain management services
(1)	LF Logistics USA Inc.	U.S.A.	Common stock US$1	100	Investment Holding
(1)	LF Logistics USA LLC	U.S.A.	Capital contribution US$1	100	Provision of freight forwarding and other logistics services
(1)	LF Men's Group LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
(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
(1)	LFL Management (Thailand) Limited	Thailand	Ordinary Baht 10,000,000	100	Investment holding
(1)	LFL Services (Thailand) Limited	Thailand	Ordinary Baht 2,000,000	100	Investment holding

42 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**				
	Licus GmbH	Germany	EUR50,000	100	Importer
(1)	Li & Fung (Australia) Proprietary Limited	Australia	Ordinary AU$1	100	Marketing liaison
(1)	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
(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 Pesos 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 8,000,000	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

42 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**				
	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
(1)	Li & Fung Trading Services (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM 500,000	100	Sourcing services
	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
(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

42 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**				
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
(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
(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	100	Wholesaling
(1)	PromOcean The Netherlands B.V.	The Netherlands	EUR39,379.5	100	Wholesaling
	PromOcean UK Ltd	England	Ordinary GBP1	100	Wholesaling
(1)	PT Direct Sourcing Indonesia	Indonesia	Ordinary US$250,000	100	Export trading services
(1)	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and other services
(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
(1)	RMS Trading GmbH	Germany	EUR25,000	100	General trading of merchandise
(1)	RT Sourcing (Shenzhen) Limited	The People's Republic of China	HK$1,000,000	100 foreign-owned enterprise	Export trading services

42 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**				
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management
	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
(1)	Simkar 2 Limited	Cayman Islands	Ordinary US$50,000	100	Investment holding
(1)	Simkar Limited	Cayman Islands	Ordinary US$49,999.75	100	Investment holding
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
(1)	STS Shenzhen Testing Service Limited	The People's Republic of China	US$660,000	100 foreign-owned enterprise	Testing and technology consultation
(1)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Texnorte II – Industrias Texteis, Limitada	Portugal	EUR5,000	100	Export trading services
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	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
	Wilson Textile Limited	Hong Kong	Ordinary HK$1	100	Export trading

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 2018 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.

42 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
#	Ningbo Penavico-CCL International Freight Forwarding Co., Ltd.	The People's Republic of China	US$1,000,000	40	Provision of freight forwarders services
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 2018 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

	2018 US$'000 (Note 1)	2017 US$'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
Turnover	**12,700,744**	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
Core Operating Profit	**284,722**	355,852	318,401	509,391	604,143	737,094	511,173	882,056	725,138	511,552
Operating profit	**246,887**	330,072	300,398	591,952	723,625	811,726	790,703	879,937	679,318	497,373
Interest income	**10,608**	12,261	15,713	9,761	6,984	9,177	20,385	19,490	13,567	11,636
Interest expenses	**(56,190)**	(69,761)	(90,448)	(99,541)	(105,179)	(107,575)	(135,109)	(128,594)	(98,443)	(47,706)
Share of profits less losses of associated companies and joint venture	**205**	1,898	1,748	1,570	1,373	442	638	1,231	1,850	998
Profit before taxation	**201,510**	274,470	227,411	503,742	626,803	713,770	676,617	772,064	596,292	462,301
Taxation	**(30,748)**	(40,830)	(32,288)	(57,890)	(59,035)	(72,011)	(54,053)	(90,660)	(47,525)	(30,798)
Profit/(loss) for the year										
Continuing Operations	**170,762**	233,640	195,123		567,768	641,759				
Discontinued Operations	**(139,797)**	(543,045)	61,068		(98,122)	113,528				
Net profit/(loss) for the year	**30,965**	(309,405)	256,191	445,852	469,646	755,287	622,564	681,404	548,767	431,503
Attributable to:										
Shareholders of the Company	**(10,981)**	(374,573)	221,077	418,013	441,276	725,337	617,416	681,229	548,491	431,937
Holders of perpetual capital securities	**46,125**	64,125	35,687	30,000	30,000	30,000	4,415	–	–	–
Non-controlling interests	**(4,179)**	1,043	(573)	(2,161)	(1,630)	(50)	733	175	276	(434)
	30,965	(309,405)	256,191	445,852	469,646	755,287	622,564	681,404	548,767	431,503
Earnings per share (HK cents)										
Basic	**11.7(5)**	15.8(5)	14.9(5)	39.1	50.3(5)	57.1(5)	58.1	65.8	55.9(4)	45.5(4)
equivalent to (US cents)	**1.50(5)**	2.04(5)	1.92(5)	5.04	6.46(5)	7.32(5)	7.45	8.43	7.17(4)	5.83(4)
Dividend per share (HK cents)	**7.0**	13.0	23.0	28.0	34.0	41.5(6)	31.0	53.0	45.0	37.5
equivalent to (US cents)	**0.9**	1.68	2.96	3.61	4.36	5.32(6)	3.97	6.79	5.77	4.81
Special dividend per share (HK cents)	**–**	47.6	–	–	7.0	–	–	–	–	–
equivalent to (US cents)	**–**	6.14	–	–	0.90	–	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2018 US$'000 (Note 1)	2017 US$'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
Intangible assets	**2,321,294**	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
Property, plant and equipment	**220,264**	208,221	221,550	241,626	244,907	439,599	418,624	325,432	309,186	160,988
Other non-current assets	**48,633**	62,988	59,933	78,923	58,160	119,558	160,930	120,195	127,456	115,133
Current assets	**2,750,900**	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
Current liabilities	**2,671,531**	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
Net current assets/(liabilities)	**79,369**	1,115,216	211,785	(16,750)	123,354	215,616	506,031	286,751	860,426	530,040
	2,669,560	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
Financed by:										
Share capital	**13,633**	13,574	13,487	13,487	13,398	13,398	13,396	12,987	12,899	12,103
Holders of perpetual capital securities	**655,687**	1,158,687	1,158,687	503,000	503,000	503,000	504,415	–	–	–
Reserves	**1,200,109**	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
Shareholders' funds	**1,869,429**	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
Other non-current liabilities	**800,131**	819,741	931,257	1,583,752	1,665,426	2,833,644	3,006,671	3,327,378	2,554,763	874,837
	2,669,560	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

NOTES:

(1) The strategic divestment of the three Product Verticals was completed on 3 April 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 divested in April 2018
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 furniture, beauty and sweaters product verticals the Group divested in April 2018
Report	the annual report of the Company for the year ended 31 December 2018
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
Joseph C. Phi

Non-executive Directors

Victor Fung Kwok King
Marc Robert Compagnon
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.

MUFG Bank, Ltd.

Standard Chartered Bank (Hong Kong) Limited

Legal Advisors

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

Registered Office

Canon's Court, 22 Victoria Street
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