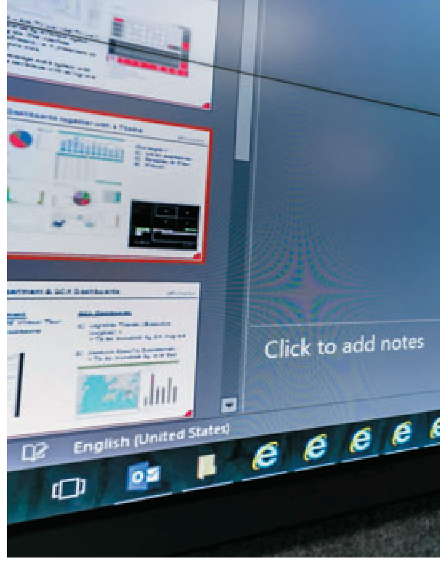
CREATING THE SUPPLY CHAIN OF THE FUTURE

Annual Report 2019

LI & FUNG LIMITED

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


LI & FUNG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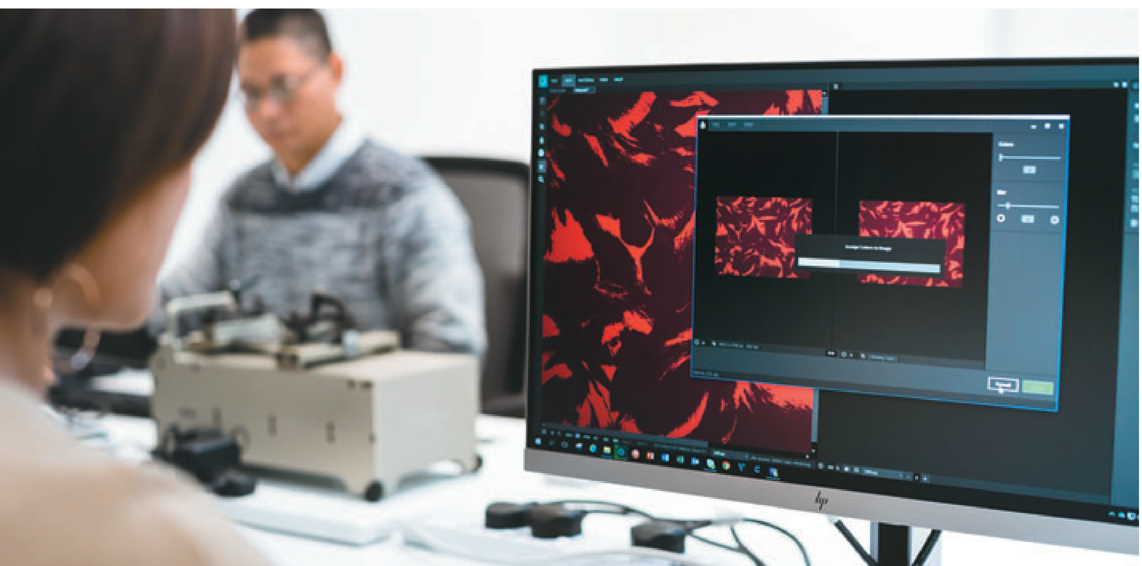

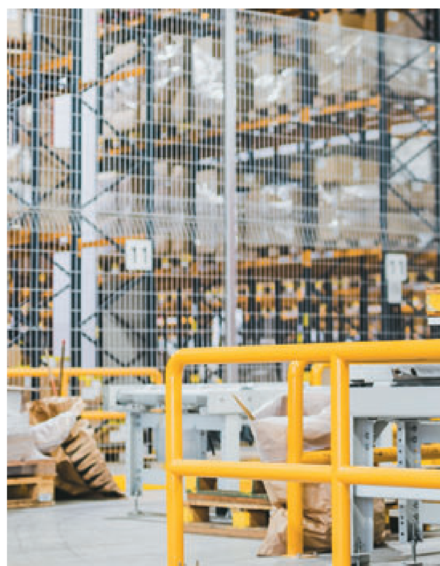

Contents

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A Letter from Our Chairman

Dear Shareholders,

As we enter the new decade, I would like to examine the major developments that are shaping global trade and the retail industry, as well as opportunities and challenges facing Li & Fung.

Macro environment

At the time of writing, the COVID-19 virus has already spread to more than 100 countries, causing social, economic and financial upheavals around the globe. Quarantines and travel restrictions of unprecedented scale have been put in place in order to contain the outbreak. Governments seem ready to deploy incremental fiscal and monetary stimulus but market confidence has so far been fragile. Concurrently, geopolitical tension seems to be rising since the beginning of the year. Russia and Saudi Arabia have just started a price war over oil production, with shocks reverberating through the markets. The US and China continue to vie for global technological leadership amidst the virus outbreak. Near-term pressure from the trade war was temporarily relieved with the conclusion of phase one of the US-China negotiations. In the meantime, most of the punitive tariffs imposed during the early phase of the conflict remain in place to the continued detriment of Sino-US trade. The disruptions from COVID-19 outbreak and the lack of a set timeframe are presenting more uncertainties to the next phase of the negotiations, which might prove to be more difficult due to the complex geopolitical and ideological backdrop.

These developments are casting doubts on the economic outlook of both the US and Europe, which are, respectively, key markets for our Supply Chain Solutions business and Onshore Wholesale business. Facing uncertain prospects, consumers in these markets are likely to scale back on discretionary spending, bringing further pressure to a wide-range of businesses, especially those selling non-essential consumer goods and services. In China, the supply chains have been gradually reverting to normalcy. However, Asia is not immune and economies in the region are beginning to feel the pressure of global volatilities. The long-term growth trajectory of Asia, especially China, supported by economic potential and favorable demographics, remains intact.

Retail industry — retailtainment on the rise

The retail industry continues to evolve at an unprecedented pace as consumer behaviors shift and technology advances. With more value attached to personal experience rather than to material possession, experiential retail, or retailtainment, has emerged. In retailtainment, consumers visit stores to experience new products or even create products customized to their tastes. They enjoy maximum flexibility in terms of when and how to buy and receive their products. Physical stores become much more than a sales outlet, but a key space for brands and retailers to build emotional connection with their customers.

The complexity of retail front-end increases exponentially as retailtainment grows. To support this development, the infrastructure and processes that facilitate the flow of physical goods, from conception to consumption, need to change dramatically. More than ever, retailers need supply chain and logistics partners that are highly responsive, sophisticated, and nimble. Our comprehensively digitalized supply chain is well-equipped to help brands and retailers adapt to the new digital landscape.

Global sourcing network of Li & Fung

Until recently, the World Trade Organization (WTO) provided a relatively stable and straight-forward sourcing landscape for many industries. In hindsight, this may prove to be an anomaly as geopolitical forces realign and the WTO-order of the past decade unravels. While we continue to help our customers diversify their production from China to other countries in our global network, it is unrealistic to move all activities out of China due to the sheer size of the country's manufacturing base and its unique upstream value chain that is hard to replicate in scale.

We therefore expect that "Made in China" will gradually become "Managed by China" as Chinese manufacturers themselves move offshore and supply essential components to other global manufacturers. This, together with a proliferation of bilateral trade agreements is usurping the previous multilateral framework and necessitate a wholesale rewiring of global supply chains. We expect a new equilibrium will ultimately emerge over time. Over the past few decades, we have put in place a global sourcing network of unrivaled breadth and depth. This network provides our customers with the diversity needed to cope with uncertainties as the global sourcing landscape becomes ever more complex. In recent weeks, our vast network has again proved its resilience as we mobilized our network to help our customers and suppliers tackle the disruptions from the COVID-19 outbreak.

Importance of Environmental, Social and Governance actions

A significant development of our time is the rising awareness of Environmental, Social and Governance (ESG) issues and the urgency of addressing our common sustainability challenges. Consumers expect businesses to make a positive impact to the world. Brands and retailers place more emphasis on whom they source from and how the products are made. Businesses are integrating initiatives such as material circularity and product traceability into their brand DNA.

Our investors and customers are also emphasizing ESG commitment and action in their decision making. We have been evolving our holistic sustainability strategy for over ten years and continue to set and attain goals to meet best practice benchmarks and stakeholder expectations for a responsible business. Improving our ESG performance drives our sustainability strategy and we integrate the sound management of ESG issues into our global operations and along our value chain. For example, we engage with suppliers in our global network only after rigorous vetting based on criteria that include environmental impact and workers' rights. Regular audits are performed to ensure continued compliance with our standards. Our 3D Digital Product Development helps reduce material wastage in sampling and greenhouse gas emissions arising from the transport of physical samples.

As one of the founding strategic partners of the Global Fashion Agenda and a participant in the Make Fashion Circular Initiative, we are committed to working with our customers to implement design strategies for recyclability, increase the resale of used garments and footwear, and increase the use of recycled post-consumer textile fibers. Going forward, we will continue to leverage our convening power and collaborate with our stakeholders along the supply chain to make our industry more environmentally, socially responsible, and sustainable.

2020 — a pivotal year

When we launched our previous Three-Year Plan in 2017, we announced our ambitious goal to create the Supply Chain of the Future. Over the past three years, we have made great strides in digitizing many previously analog steps in the consumer goods supply chain and are now the leading go-to provider of end-to-end digital services such as 3D Digital Product Development. During the same period, we embarked on one of the most profound reorganizations and as a result Li & Fung became a leaner and more focused organization. We have the right structure and leadership in place to transform our business as the retail industry continues to reinvent itself in the face of extraordinary pressures at the consumer end. Our Logistics business, which focuses on servicing Chinese and Asian domestic customers on behalf of multinational businesses, will continue to benefit from positive secular trend in the region and the US$300 million investment by Temasek in August 2019 will help facilitate its business expansion.

Despite the challenges facing the global economy and the retail industry, I am confident that we, by leveraging our scale and scope and focusing on operational excellence, can achieve meaningful progress in creating the Supply Chain of the Future and improve the lives of one billion people. As we unite to combat the COVID-19 pandemic and the economic havoc that may result and continue our transformation journey in this pivotal year, I would like to express my heartfelt gratitude to our colleagues, customers, shareholders, suppliers and ecosystem partners for their relentless and continuous support. Their invaluable partnership will be valued even more as we navigate this pivotal year.

Yours sincerely,

William FUNG Kwok Lun
Group Chairman

A Letter from Our CEO

Dear Shareholders,

I hope that this letter finds you and your family safe and healthy. As we report our 2019 results, the world is going through one of the biggest crises we have seen in modern history triggered by the COVID-19 virus. We are in unprecedented times and the world is now coming together to fight this crisis. This is a global, simultaneous, supply and demand disruption that is affecting millions of companies around the world. Within the global retail industry, Li & Fung is uniting our ecosystem of retailers and suppliers to solve this problem together.

2019 marked the end of our current Three-Year Plan (2017–2019) where our goal was to create the Supply Chain of the Future by focusing on Speed, Innovation and Digitalization. While we did not meet our financial targets, we have established ourselves as one of the leaders in digitalizing the upstream supply chain. The first year of our plan, 2017, was an experimental year for us as we looked at what the Supply Chain of the Future might mean for our business. In 2018, we began to focus on a few key areas, including 3D Digital Product Development and strengthening our global network to help our customers navigate the effects of the US-China trade war. In that second year, we also embarked on our biggest restructuring and reorganized our company and created the industry's largest unified sourcing and production platform. Following the restructuring, we brought in new management teams including the key roles of Group President Joseph Phi, Chief Operating Officer Wilson Zhu, and Chief Digital Officer Darren Palfrey. In our final year, 2019, we continued our digital transformation and extended our lead in 3D Digital Product Development and created our Logistics Digital Control Tower. With KPIs improving, our Supply Chain Solutions business (SCS) started to gain market share. However, the overall financial results were pulled down by the general weakness in the consumer and retail industry and by customer turnover triggered before our restructuring. Our Onshore Wholesale business (Onshore Wholesale) performed relatively well in 2018 but started to face pressure in 2019. The Logistics business (Logistics) continues to gain strength with in-country logistics performing strongly and we are continuing to enter new markets and product verticals. However, our global freight management business came under pressure from depressed freight rates due to the US-China trade conflict. Importantly, we raised US$300 million from Temasek, the Singapore-headquartered investment company who acquired a 21.7% stake in LF Logistics in August 2019.

For 2019, our turnover was down by 10.1% due to the decline in SCS and Onshore Wholesale. Total margin decreased by 9.1%, but total margin percentage increased by 0.1 percentage point due to increased contribution from Logistics. Operating costs decreased by 5.3% due to productivity gains in SCS and Onshore Wholesale, which was partially offset by digital and logistics investments. As a result of these factors, our core operating profit decreased by 22.9%. Based on the benchmark against profit attributable to shareholders and taking into consideration the uncertainties surrounding the COVID-19 virus outbreak, the Board did not recommend the payment of a final dividend. Over the years we continued to deleverage our balance sheet. In 2019, we further reduced our bond by US$250 million on a pro forma basis# and ended the year with a lower net debt balance of US$244 million, lower gearing ratio of 10%, investment grade ratings by both Moody's and S&P, cash balance of US$932 million, and banking facilities of over US$1.5 billion.

Looking ahead, we expect the global trading environment will be highly disruptive and unpredictable. We have moved from a WTO-backed multilateral framework to one that is more fragmented with many countries striking bilateral trade deals among each other. The US-China trade war has taken center stage in global trade and represents one of the biggest disruptions we have seen in 20 years. As a result, many companies are now diversifying away from China and pursuing a more diversified global sourcing strategy which we believe is the best option to mitigate risks. Meanwhile, retail and digital disruption continues at a very fast pace and many of our customers have yet to embrace the latest developments. Finally, the COVID-19 pandemic is likely to be the single most disruptive event the modern world has seen, causing lockdown of entire countries and simultaneous, wholesale disruption of both demand and supply.

Under this uncertain backdrop we will not announce a new three-year plan and have instead announced our 2020 & Beyond Strategic Direction under which we will continue to focus on building the Supply Chain of the Future and organic growth. We will continue to leverage our 50+ economy network to help our customers diversify risk and navigate the ever-changing global trading landscape. We will continue to build on our leadership in 3D Digital Product Development by adding new modules and will start to monetize the service. With our new structure, we will now truly leverage the scale of Li & Fung and will create three new centers of excellence focusing on denim, fabric and costing. Logistics will continue to focus on new countries, verticals and its transport business, and will continue to expand in China and e-Logistics. Finally, we will start to combine our offerings in SCS, Logistics, Onshore Wholesale and Digital to provide our customers with a one-stop-shop service that is unique in the industry. While we are excited about the new strategic direction, we know there is execution risk and a lot to do to fulfill our plan.

For the rest of 2020, the entire world will be weighed down by the effects of COVID-19. With the virus spreading across more than 100 countries around the world, we see a sudden drop in demand as consumers stay home and spend on essential goods and services only. As a result, many of our customers are now in a holding pattern that has caused disruption upstream. At the same time, many production countries are also in a lockdown that will pause the global supply chain. We have been using digital tools to ensure business continuity and also ramping up the use of 3D Digital Product Development to help our customers develop products remotely. As Li & Fung is connected to thousands of retailers and suppliers, we are now using all the information and resources in our ecosystem to help customers and suppliers learn faster from best practices and survive this crisis. We are also engaged with many local trade groups and governments to encourage financial help to our supplier partners who are in great need. Millions of workers face unemployment with no food on the table if the governments do not provide immediate help. Finally, we are also engaged with global organizations to encourage governments to take a more globally coordinated approach to combating the COVID-19 virus and the economic fallout. Since this crisis is bigger than anything we have seen in recent decades, the entire world has to come together to take actions quickly. Only then will we have a swift recovery and not risk causing permanent damage to the global economy.

I would like to close by thanking all shareholders, customers, suppliers and our hard-working colleagues for your continued support. Looking back from the future, COVID-19 will be a temporary event and we will all come out of this eventually. I wish everyone a safe and healthy year ahead and I look forward to updating you again soon.

Yours sincerely,

Spencer Fung
Group CEO

[#]Pro Forma: excluding outstanding US$374M bond to be redeemed with cash at hand at maturity in May 2020.

Summary of the Year

2019 GROUP OVERVIEW

Turnover

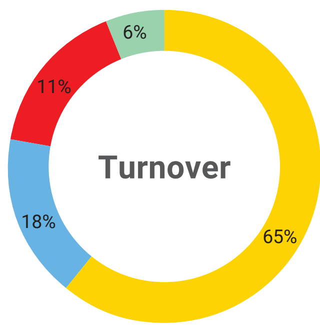
US$11,413M

Total margin

US$1,219M

Core operating profit

US$228M



Group geographical market turnover

US$11,413M

USA Europe Asia
Rest of World

Earnings per share (basic)

1.6 HK cents

0.20 US cents

Dividends per share (total)

1 HK cent

0.1 US cents

Operating cash flow

US$281M

Cash and bank balances

US$932M

Gearing ratio

10%

OUR SUPPLY CHAIN

Suppliers worldwide

10,000

Top five sourcing countries

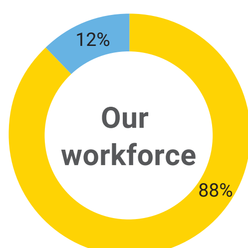
China Vietnam Bangladesh
India Indonesia

OUR PEOPLE

49.6% Female

50.4% Male

41% Of our management worldwide is female

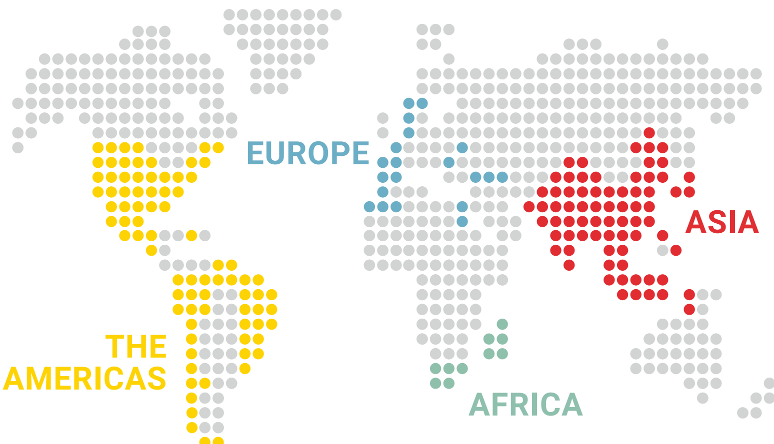


Services
Products

Production countries

50+

We operate an extensive global supply chain network in over 230 offices and 270 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

16,796

OUR COMMUNITIES

173
Activities

16,500+
Volunteer hours

10,800+
Volunteer hours during working hours

5,600+
Volunteer hours during non-working hours

5,300+ Times
Our people volunteered

27 Locations in 18 countries

OUR FOOTPRINT

64% **Reduction in paper consumption globally**

27% **Reduction in paper volume consumed by Hong Kong**

46% **Reduction in waste generation in Hong Kong**

10% **Increase in capture of recyclables in Hong Kong**

RECOGNITION

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

Results Overview

Integrated Supply Chain and Logistics Services Have Become Critical for Omni-Channel Retail

In 2019, the retail industry continued to be disrupted by advances in omni-channel technology and cross-border e-commerce. By strengthening our global sourcing network, digital product development and design as well as logistics services, we are well positioned to help our customers tackle changes brought about by these disruptions. End-consumers, equipped with mobile technology and higher price transparency, expect brands and retailers to provide higher levels of product customization, richer experiences and more flexible purchase and delivery options. In response to this, our customers — brand owners and retailers — continued to transform their organizations and develop more sophisticated omni-channel interface to their end consumers. As a result, our customers' procurement functions need to accommodate shorter production lead times, increased SKU variety and more complex logistics requirements. This requires their supply chain and logistics service providers to be more flexible, nimble and resilient. Over the past few years, we have leveraged our global network and developed a comprehensive suite of integrated services that evolve with the needs of our customers.

Early adopters of our speed model have already significantly shortened their pre-production cycles through process redesign and converting analog processes into digital ones. Our digital platform, comprising cutting-edge services such as 3D virtual design, digital sampling and the trend engine, enables our customers to make faster, better-informed product decisions. As a result, they have been able to realize tangible benefits such as reduced mark-downs, better sell-through rates and improved inventory management. At the same time, however, carrying leaner inventory contributed to destocking we saw in the last few years and created short-term pressure on the turnover of our Supply Chain Solutions business. Our e-Logistics and global hubbing services enable our customers to store, package and draw from a common pool of inventory to deliver to either retail outlets and/or end-consumers' doorsteps. We will continue to help customers optimize their supply chain and logistics operations to cement sticky long-term relationships.

Comprehensive Global Network — Best Defense Against Disruptions from the Trade War and COVID-19 Virus

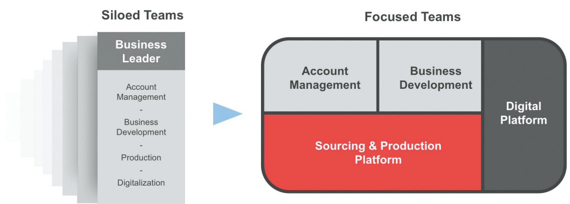
The protracted trade war between the US and China presented big challenges to the global retail supply chain in 2019. As negotiations between the two countries grind on, tariff levels, the categories of goods affected, and implementation deadlines have changed frequently, requiring swift adjustments along the supply chain. At the same time, the fundamental shift in the US-China relationship has accelerated the production migration out of China and bilateral free trade agreements have proliferated. The unraveling of the World Trade Organization framework has created a complex trade environment, which coincidentally presented our business models with opportunities not seen for the last 20 years. The recent COVID-19 virus outbreak has also caused a major disruption in the global supply chain. The restricted international travels and flow of goods have made it more difficult for customers to source products and made the supply chain significantly more complex.

Over the decades, we have cultivated deep relationships with suppliers, local business communities, and governments across our network of more than 50 economies. These relationships allow us to navigate the global supply chain effectively and move production to mitigate the impact of tariff hikes or other factors impacting global trade flows. As an example, we helped a US womenswear retailer formulate and execute a plan to reduce its reliance on China from 70% to 20% within two years by diversifying its sourcing to eight other economies across our network. Another customer, an accessories retailer, has been decreasing its China-sourcing from 40% to a targeted 10% by the end of 2020 by redirecting its orders to seven other economies. We expect that the stabilization of global trade relationships will take some time, and that the value of our global network should remain even more apparent in this period of great uncertainty and volatility.

Fundamental Reorganization of the Supply Chain Solutions Business

The reorganization of the Supply Chain Solutions business ("SCS") announced in August 2018 was the most profound for our sourcing business in close to 30 years, and it created the right structure required for the new business environment. This included forming a sourcing and production platform across countries to focus on operational excellence, distinguishing between account management and business development responsibilities at customer-facing functions, with the former focusing on gaining market share and the latter winning new customers, and creating a digital platform for the entire organization. This reorganization was followed by the recruitment of a Chief Operating Officer (COO) in October 2018 to lead the sourcing and production platform, the recruitment of a Chief Digital Officer (CDO) in early January 2019 to lead the digital drive, and the appointment of a new Group President in late January 2019 to focus on account management and business development. These new senior leadership team members have deep specialty knowledge and strong execution track records.

Focused Reorganization



Under the new leadership and strategy, we made encouraging progress in operational excellence, account management and business development. Key performance indicators (KPIs) such as on-time delivery rates and claim rates improved across the board and customer satisfaction level increased. Focused account management was received positively by customers, and this positioned us to gain more of their wallet share in the future. In parallel we reviewed our customer portfolio and began to exit non-strategic customers. This resulted in short-term turnover pressure but stronger risk control, cost rationalization, and resource allocation.

Our account management and business development efforts, strengthened by our leadership in digital solutions and services and the geographic diversity of our sourcing network, yielded encouraging business wins. 2019 was one of our most successful years in terms of converting new customers, bringing in new businesses with an annualized value of several hundred million dollars. Although a few of these businesses will take several years to ramp up and we may not immediately see significant near-term financial impact, they validated the relevance of our business model and reconfirmed that our service offering resonates with the needs of our customers.

Regarding the Group's sourcing and production platform, we replaced the old siloed model with a new collaborative model in which all businesses within a country integrate their resources for increased leverage, better communication and improved vendor management. Four regional platforms were set up to strengthen multi-country supervision and coordination. For each of these platforms, new leaders with deep production knowledge and experience were appointed. These leaders reside in our countries of production and took over sourcing and production activities from account managers who previously made decisions remotely under the old structure. A productivity drive, modeled after the successful implementation in India, which produced multiple-year positive jaws between revenue and operating costs, was carried out in major production countries.

The positive feedback from customers and vendors on our organizational restructuring and management change reinforced our confidence in the direction we have taken.

Digital Platform: Leadership in 3D and Product Development

Our digitalization initiatives began when we launched our Three-Year Plan (2017–2019). Our digital offering has since gained solid traction among customers, and has helped secure our leadership position in the 3D virtual design space. More customers are leaning on us for digital services and guidance on how to integrate digital product development into their business processes. We are also helping customers take their own digital leaps with design and development, visual planning and assortment, and digital selling. On the whole, the penetration of our end-to-end virtual design center of excellence has continued to deepen within our customer portfolio.

Our trend engine, which helps predict fashion trends, went into production in 2019. This is a digital tool to help customers make better-informed design and production decisions. Overall, our digital services continued to gain traction, which allowed us to start monetizing these services in the first half of 2019.

The build-out of our digital platform accelerated after our new CDO joined in January 2019. Various siloed applications were organized into a unified platform and our direction and priorities were reset to reflect latest changes in the business landscape. Apart from investing in our capabilities, we have formed strategic partnerships with various ecosystem partners to broaden and enrich our offering to customers. Overall, we made significant progress in building an open, flexible digital platform over the course of the last Three-Year Plan, which serves as a strong foundation for the next phase of development and implementation.

Temasek's US$300 Million Investment in Logistics Business

Our Logistics business ("LF Logistics") has been a bright spot since it became part of Li & Fung in 2010. It continues to benefit from the tailwind of rising middle-class consumption in Asia, the growth of e-commerce logistics, and geographic and vertical expansion. Despite the short-term impact of the US-China trade war and COVID-19 virus, the business' long-term prospects remain intact. As preparatory work in connection with the proposed spin-off IPO of LF Logistics was underway, we continued to evaluate strategic alternatives for the business. After considering market conditions and geopolitical uncertainties, we decided to postpone the IPO and bring in Temasek as our pre-IPO strategic investor. Temasek invested US$300 million for a 21.7% stake in LF Logistics. As the controlling shareholder of LF Logistics, we will continue to consolidate its results in our financial statements.

Through the Temasek transaction, we not only accomplished some of the objectives of the proposed IPO, but also brought in a reputable long-term investor. Temasek's investment enhanced the Group's capital structure and financial flexibility. Most importantly, it will help accelerate LF Logistics' business expansion.

Bond Refinancing: Further Optimization of the Capital Structure

In June 2019, we took an early draw-down of US$300 million from existing long-term bank loan facilities to prevent any market-driven risk that might impact the repayment of our US$750 million bond due in May 2020 (the "old bond") and allow us to maintain maximum flexibility in refinancing. In the second half of 2019, we captured a favorable market window to issue US$500 million in a five-year bond (the "new bond") in two tranches. The new bond carries a coupon rate of 4.375%, which is 87.5 basis points lower than that of the old bond. The issuance of the new bond was well received by the market. At the same time, we successfully tendered for US$376 million, or approximately 50%, of the old bond. The remaining US$374 million will be redeemed at maturity with cash on hand. As a result of this refinancing, we extended our debt maturity profile and lowered net debt outstanding compared to the prior year. After the redemption in May 2020, we will be further lower our gross debt.

Strategic Accomplishments of the Three-Year Plan (2017–2019)

From the perspective of the entire Three-Year Plan (2017–2019), we made encouraging progress along the three main themes: Speed, Innovation, Digitalization. Both our speed model and digital services have gained traction with major customers who use them to speed up their supply chains. The efficiency gained has generated tangible benefits such as reduced mark-downs and better sell-through rates for these customers.

We are seen as a leader in 3D virtual design and various applications on our digital platform, such as the trend engine, are adding unique value to our customers' business processes. We also established a data team to continually explore new ways to derive valuable insights from the vast amount of data that flows through our system. In the broader ecosystem, we mapped out more than a thousand technology companies and formed strategic partnerships with those that complement our capabilities.

Overall, we made significant progress towards our goal of creating the Supply Chain of the Future to help our customers navigate the digital economy. We have established ourselves as a unique digital supply chain service provider with clear leadership in 3D product development. Compared to the beginning of 2017, we have become more focused, more digitally savvy, and more financially flexible. The Three-Year Plan (2017–2019) was one of the most transformative in the recent history of the Company, and it has laid a strong foundation for us.

Results

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

New accounting standard, HKFRS 16, which took effect in 2019, specifies how a company should recognize, measure, present and disclose leases. To maintain consistency in our consolidated financial statements throughout the reporting year, we have applied this new standard retrospectively and restated prior year comparatives. As a result, the Group recognized an increase in right-of-use assets and lease liabilities of US$392 million and US$421 million respectively as at 31 December 2018 and a decrease in net profit of US$3 million for the year ended 31 December 2018.

	Group Results[1]		
(US$ million)	**2019**	2018 (Restated)[3]	Change %
Turnover	**11,413**	12,701	−10.1%
Total Margin	**1,219**	1,342	−9.1%
As % of Turnover	***10.7%***	*10.6%*	
Operating Costs	**992**	1,047	−5.3%
As % of Turnover	***8.7%***	*8.2%*	
Core Operating Profit	**228**	295	−22.9%
As % of Turnover	***2.0%***	*2.3%*	
Profit for the Year			
— Continuing Operations	**54**	168	
— Discontinued Operations	**–**	(139)	
— **Total**	**54**	29	
Profit Attributable to Shareholders[2]			
— Continuing Operations	**17**	123	
— Discontinued Operations[1]	**–**	(136)	
— **Total**	**17**	(13)	

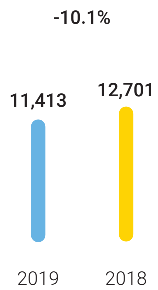
1. Group results with Discontinued Operations separately presented given the strategic divestment of the three Product Verticals in April 2018. The loss attributable to Shareholders of US$136 million in 2018 is the result of an operating loss of the discontinued business of the three Product Verticals of US$22 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.
2. Excluding profit attributable to holders of perpetual capital securities and non-controlling interests.
3. 2018 comparatives restated with adoption of new accounting standard, HKFRS 16 (Note 1 of the financial statements).

Amounts reported in millions in the management discussion and analysis are computed based on the amounts in thousands. As a result, the sum of the components reported in millions may not equal the total amount reported in millions due to rounding. Certain columns and rows within the tables may not add due to the use of rounded numbers. Percentages presented are calculated from the underlying numbers in thousands.

TURNOVER

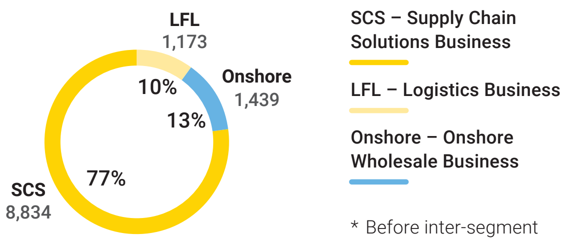
Group turnover decreased by 10.1% to US$11.4 billion due to continued customer destocking, bankruptcies and store closures, as well as customer turnover in SCS business and exits from non-strategic customers. This was offset by new customer wins and market share gains for key customers, particularly in Logistics. For SCS, customers have continued to adopt our digital solutions to increase speed to market and achieve better sell-through and reduced mark-down rates. This has improved their inventory turns and resulted in lower inventory levels. Despite pressure on our turnover, our ability to provide a faster, more flexible supply chain and shorten the production cycle is helping us cultivate stickier, longer-lasting customer relationships.

Turnover
US$m



SCS, Logistics and Onshore Wholesale business, accounted for 77%, 10% and 13% of Group turnover, respectively.

2019 Turnover Breakdown by Segments*
US$m



* Before inter-segment elimination

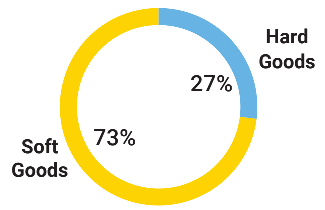
SCS turnover decreased by 11.1% primarily due to customer turnover, the exit of certain customers in bankruptcy situations, customers' continued destocking, and proactive exit from non-strategic customers. SCS achieved market share gains with some key customers, especially in the hard goods area, and new customer wins in our core apparel segment.

Logistics turnover increased by 3.5% driven by strong demand for in-country logistics services, offset by the slowdown in the global freight business and depressed freight rates due to the US-China trade conflict. On a constant currency basis, turnover increased by 6.0%. Growth was driven by China, e-logistics growth, expanded relationship with our core customers and entry into new markets.

Onshore Wholesale business turnover in the Americas, Europe and Asia decreased by 13.6%. We continued to experience pressure on our top line from weak consumer sentiment and an unstable economic environment particularly in Europe. Our Onshore Wholesale business also proactively exited non-strategic customers, which negatively impacted turnover.

Excluding Logistics, the Group derived 73% of its turnover from soft goods and 27% from hard goods.

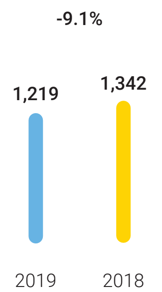
2019 Group Product Mix
(Excluding Logistics Business)



TOTAL MARGIN

Total margin decreased by 9.1% to US$1,219 million while total margin as a percentage of turnover increased from 10.6% to 10.7%. The increase in total margin as a percentage of turnover is the result of our segment diversification strategy to offer higher-margin services, such as logistics to our sourcing customers and the increased contribution from the higher-margin Logistics business. The decrease in total margin was mainly due to lower turnover, margin pressure and change in the customer mix in SCS, as well as lower turnover in the Onshore Wholesale business. This decrease was offset by business growth in Logistics and growth among selected customers in both SCS and Onshore Wholesale business. The soft launch of selling new digital services has just begun and is yet to have meaningful impact on the overall total margin.

Total Margin
US$m

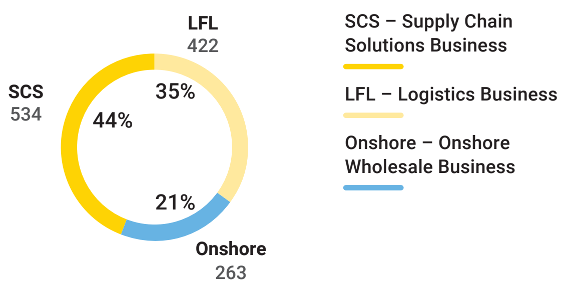


Total Margin Percentage
+0.1 percentage point

10.7%	10.6%
2019	2018

SCS, Logistics and Onshore Wholesale business accounted for 44%, 35% and 21% of total margin respectively. Total margin for Logistics saw a year-on-year increase of 8.2%. This was offset by reductions in total margin for the SCS of 17.5% and Onshore Wholesale business of 13.6%.

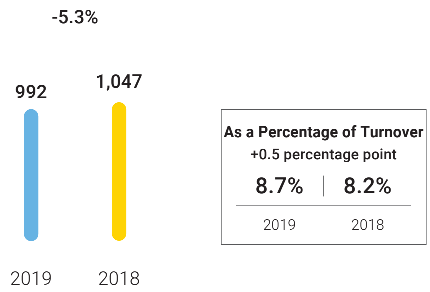
2019 Total Margin Breakdown by Segments
US$m



OPERATING COSTS

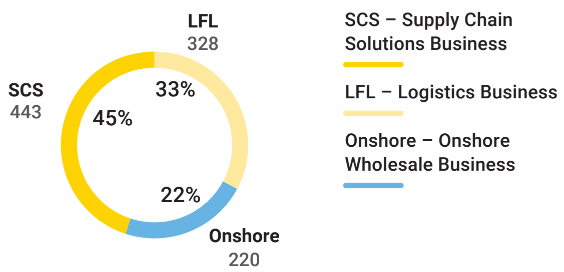
Operating costs decreased by 5.3% to US$992 million. With the establishment of the sourcing and production platform, we effectively reduced the combined operating costs in SCS and Onshore Wholesale business by US$110 million through productivity and credit strengthening initiatives. We continued to right size our organization, and apply sustained efforts to enhance our operating efficiency and productivity through technology and process improvement. These savings were offset by continued investment in digitalization, and an increase in Logistics operating costs to support its business expansion and organic growth.

Operating Costs
US$m



SCS, Logistics and Onshore Wholesale business accounted for 45%, 33% and 22% of operating costs respectively. Operating costs for SCS decreased by 11.3% through rightsizing, ongoing productivity improvements and process streamlining, although this was offset to some degree by investments in digitalization. Operating costs for Logistics increased by 10.4% as a result of continued business expansion. Operating costs for the Onshore Wholesale business decreased by 11.9% due to our restructuring efforts, particularly in the UK.

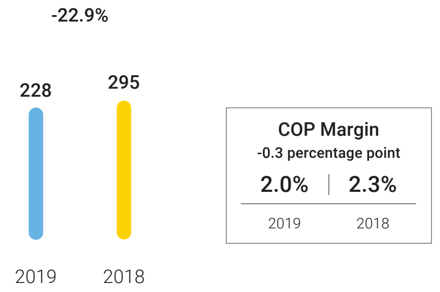
2019 Operating Costs Breakdown by Segments
US$m



CORE OPERATING PROFIT

Core operating profit ("COP") decreased by 22.9% to US$228 million. This was largely due to reductions in turnover and total margin in SCS as well as continued investment in digitalization according to our long-term plan. Corporate overheads are relatively fixed by nature to support our global network which added additional pressure to COP. As a result of the increase in operating cost percentage relative to turnover, COP margin decreased by 0.3 percentage point to 2.0%.

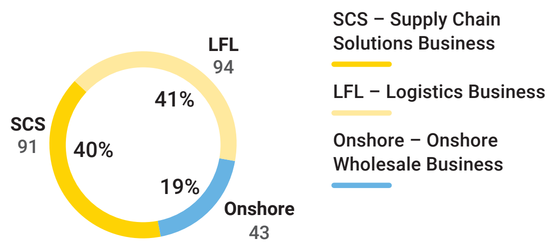
COP
US$m



In 2019, SCS, Logistics and Onshore Wholesale business accounted for 40%, 41% and 19% of our COP respectively.

While COP for SCS and Onshore Wholesale business decreased by 38.4% and 21.7% respectively, COP for Logistics increased by 1.0%.

2019 COP
Breakdown by Segments
US$m

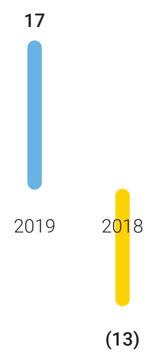


NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group recorded a net profit attributable to shareholders of US$17 million for 2019. This is compared to a net loss of US$13 million for 2018, which included an operating loss for the discontinued business of the three Product Verticals of US$22 million primarily during the first three months of 2018 and final disposal losses resulting from the discontinued business of US$114 million.

Net profit attributable to shareholders for Continuing Operations decreased to US$17 million in 2019 compared with US$123 million in 2018. This was mainly due to the drop in COP, which resulted from reductions in topline turnover and total margin, non-recurring reorganization costs related to the restructuring of SCS as well as the establishment of the sourcing and production platform, and the write-off of certain legacy IT assets due to our continued digitalization efforts. The Company also incurred one-time non-recurring costs for the bond buyback and deal costs associated with the Temasek investment. Net profit attributable to shareholders was also impacted by a higher effective tax rate in 2019 due to the higher contribution from the Logistics business in China, which has a higher corporate tax rate.

Net Profit Attributable to Shareholders
US$m

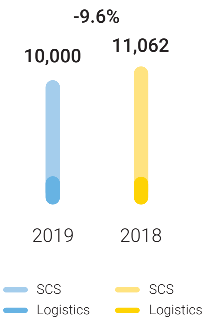


Services Segment

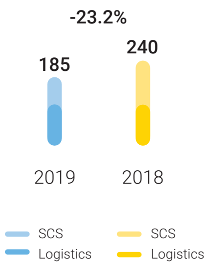
The Services segment comprises SCS and Logistics. We provide end-to-end supply chain solutions services for brands and retailers globally, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores and end-consumers.

Cross-selling between SCS and Logistics has created business opportunities and further strengthened our relationships with customers. In 2019, Logistics continued its growth trajectory, while SCS experienced a challenging environment due to ongoing destocking, customer turnover, customer bankruptcies. In total, COP for our Services segment decreased by 23.2%.

Services Segment Turnover
US$m



Services Segment COP
US$m



Services — Supply Chain Solutions Business

SCS is the largest revenue generator for the Group and accounted for 77% of turnover in 2019. It offers strategic supply chain services, including product design and development, raw material and factory sourcing and manufacturing control for brands and retailers. The business has a diversified customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs. We have also converted our vendor base to a new customer base for services that improve factories' operational efficiencies and compliance levels.

Since 2017, we have been investing in a new digital strategy to transform our business and we have made significant strides on this journey to create the Supply Chain of the Future. 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 designed to provide better, faster supply chain services beyond our traditional sourcing services. Since joining in January 2019, our Chief Digital Officer has accelerated our digital transformation by building an integrated digital offering to help our customers.

In addition, we embarked on a major restructuring in SCS in the second half of 2018, making significant transformational changes that included the establishment of a strengthened, country-centric sourcing and production platform led by our new Chief Operating Officer as well as the appointment of new Group President to lead the customer-focused account management and business development efforts.

Supply Chain Solutions Business Results

	2019	2018	Change
	US$m	US$m	%
Turnover	**8,834**	9,933	–11.1%
Total Margin	**534**	647	–17.5%
As % of Turnover	***6.0%***	*6.5%*	
Operating Costs	**443**	499	–11.3%
As % of Turnover	***5.0%***	*5.0%*	
Core Operating Profit	**91**	148	–38.4%
As % of Turnover	***1.0%***	*1.5%*	

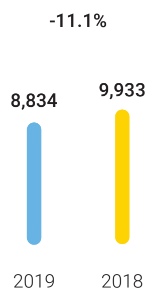
In 2019, the multi-year destocking trend and store closures in retail industry persisted, negatively affecting turnover. Turnover was also impacted by decisions made by certain customers in earlier years to establish their own buying offices. Soft goods accounted for 74% of turnover, and hard goods accounted for 26%.

Global supply chains are becoming more complex as the US-China trade conflict and the global focus on country of origin hastens the migration of production out of China, as well as, now, the recent COVID-19 virus outbreak. This plays to our strength given the breadth and depth of our global sourcing and production footprint. In 2019, we capitalized on this as well as our new digital solutions and strong execution mindset to garner organic growth from new and existing customers, bringing in new businesses with an annualized value of several hundred million dollars, to be ramped up over time. We also continued our efforts to expand our customer base, especially in the off-price segments and hard goods product categories. This helped offset pressure from retail store closures and the ongoing destocking trend. We also continued to implement effective cost control and enhance productivity.

TURNOVER

Turnover for SCS decreased by 11.1% to US$8.8 billion. As customers adjust to the new norm of omni-channel retail, they are continuing to destock and reduce their buying programs, which negatively impacted our turnover in 2019. In the US, this situation was exacerbated by a high number of store closures, which led to further inventory reductions and even more cautious buying patterns. In spite of these challenges, we have grown our businesses in the off-price channel and hard goods categories, due to our heightened business development efforts and the strong sales performances of retailers in these areas. Customer turnover, the bankruptcies of certain customers and proactive exits from non-strategic customers — all triggered in previous years — began to be reflected in the 2019 numbers. In some cases, customers have reduced their sourcing activities through sourcing agents, negatively impacting our topline turnover, although we also saw new customer wins and increased market share at selected customers. To address customer turnover, we restructured our SCS senior management team and formed the sourcing and production platform to break down silos and be even more focused on customer service and operational excellence. To improve turnover and market share with our customers, our new management team has tasked our account management teams with providing sharper focus on service performance and aligning KPIs with those of our customers. The resulting improvements in operational excellence and customer engagement are beginning to pay off, as customer turnover stabilizes and begins to bottom out. Since restructuring in the second half of 2018 and with the new management team fully in place since February 2019, there has been a net positive gain in market share from our current customers.

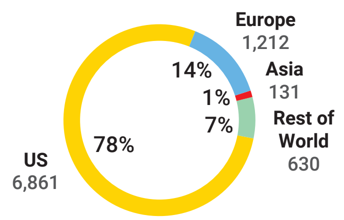
Supply Chain Solutions Business Turnover
US$m



The US, Europe, Asia and Rest of World accounted for 78%, 14%, 1% and 7%, respectively, of turnover for SCS in 2019.

Turnover for SCS in the US, Asia and Rest of World decreased by 11.8%, 45.9% and 17.6%, respectively. Turnover in these regions was primarily impacted by bankruptcies, proactive exits from non-strategic customers, and turnover among our US customers, who ship globally. Turnover in Europe increased by 5.4% due to growth in the off-price channel.

2019 Geographical Market Turnover
US$m

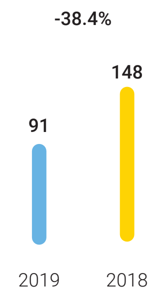


CORE OPERATING PROFIT

COP decreased by 38.4% to US$91 million while COP margin dropped 0.5 percentage point to 1.0% due to a 17.5% decline in total margin. The 11.3% decrease in operating costs to US$443 million was not enough to offset this decline. Apart from decline in turnover, general margin pressure also contributed to a decrease in total margin. While showing early promise, our new digital value-added solutions have not yet generated sufficient contribution to counter the decline in total margin.

We continued to focus on operational excellence through productivity enhancement initiatives such as greater use of technology, process reengineering and digitalization. We also continued to move merchandising roles closer to production, to improve speed and delivery quality and ultimately reduce costs. The resulting cost savings from our productivity and credit strengthening initiatives amounted to US$80 million in 2019, which represented a 16% reduction on a year-on-year basis. However, these savings were offset by additional costs related to investment in our digitalization strategy, which includes 3D design and product development, data analytics and our raw materials platform. Furthermore, certain overhead costs such as rent are fixed in the medium term and we also increased our investment in the vendor compliance area for our sustainability initiatives. Our efforts to leverage resources across the sourcing and production platform are intended to streamline the management of vendor compliance, improve quality control and assurance, and set the standard for the industry, as well as gradually adjust the overhead costs.

COP
US$m



COP Margin
-0.5 percentage point

1.0%	1.5%
2019	2018

Services — Logistics Business

Our Logistics business delivered top-line growth and maintained profitability despite challenging and highly competitive market conditions, with in-country logistics services achieving another year of double digit growth. China maintained its profitable growth momentum as our early investment in e-logistics has paid handsome dividends and allowed us to enjoy first-mover advantage. ASEAN achieved top-line growth through expanded relationships with our core customers. Our new markets of Japan, Korea and India also recorded solid results that are well ahead of plan.

We currently operate nearly 29 million square feet of warehouse space that serves customers across our four core verticals of footwear & apparel, fast-moving consumer goods, food & beverage and healthcare. Apart from providing storage and pick/pack service for domestic markets, 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 our new transport management system and digital control tower, we have increased our transport market share by cross-selling to our existing warehousing customers as well as winning new standalone transport customers.

The global freight management business was negatively impacted by the slowdown in global trade and depressed freight rates. Nevertheless, we continued to strengthen our business development and cross-selling efforts, 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 our investment in our overall value proposition, we have wooed and won new customers across all four verticals.

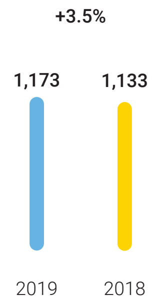
Logistics Business Results

	2019	2018	Change
	US$m	US$m	%
Turnover	**1,173**	1,133	+3.5%
Total Margin	**422**	390	+8.2%
As % of Turnover	***36.0%***	*34.4%*	
Operating Costs	**328**	297	+10.4%
As % of Turnover	***28.0%***	*26.2%*	
Core Operating Profit	**94**	93	+1.0%
As % of Turnover	***8.0%***	*8.2%*	

TURNOVER

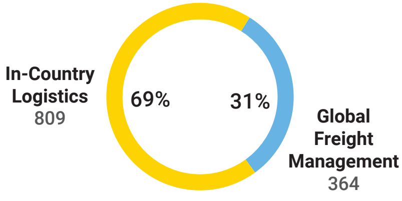
Turnover for our Logistics business increased by 3.5% to US$1,173 million, which was driven entirely by organic growth. Our reported turnover growth was impacted by currency translations from Asian currencies to the US dollar; on a constant currency basis, turnover for the Logistics business increased by 6.0%. While turnover in the in-country logistics business registered double digit growth, turnover in our global freight management business was negatively affected by the weak freight environment and a decrease in volume particularly on the China-US route. Our new business wins together with robust consumption growth in Asia across all channels, particularly e-commerce, have provided strong growth impetus for our in-country logistics business. Furthermore, we have made significant inroads into the new markets of Japan, Korea, and India and have newly expanded into the electronics verticals.

Logistics Business Turnover
US$m

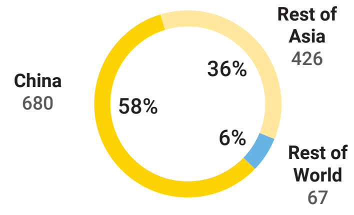


In-country logistics and global freight management accounted for 69% and 31% of turnover for the Logistics business, respectively.

2019 Turnover Breakdown
US$m



2019 Geographical Market Turnover
US$m



China is our key market for the Logistics business accounting for 58% of turnover. The rest of Asia, including Singapore, the Philippines, Malaysia, Thailand, Indonesia, India, Japan and Korea accounted for 36% of turnover, while Rest of World accounted for 6%.

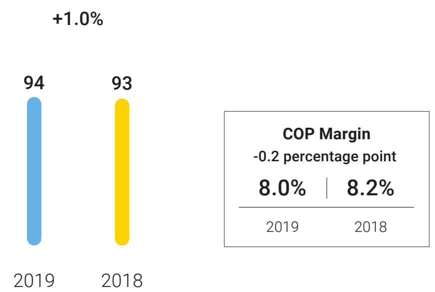
China turnover increased by 5.0% due to strong growth momentum in the in-country logistics business, though this was offset by weakness in the Chinese currency against the US dollar and drops in freight rates and volume, which affected the global freight management business. Rest of Asia showed strong growth, registering 14.5% in 2019 as we ramped up the new markets of Japan and Korea. Rest of World turnover decreased by 41.0% as it is purely a freight management business and was thus impacted by market weakness.

CORE OPERATING PROFIT

COP increased by 1.0% to US$94 million. While in-country logistics registered new customer wins, geographical expansion and productivity improvement, this performance was offset by weakness in the global freight management business due to drops in freight rates and volume. The turnover decline in global freight management resulted in negative operating leverage and a decline in COP contribution from the business. On a constant currency basis, COP for the Logistics business increased by 3.9%.

COP margin decreased marginally by 0.2 percentage point to 8.0% as the gains from customer mix optimization, productivity improvements and increased penetration of higher-margin value-added services were offset by weakness in the global freight management business.

COP
US$m



Products Segment

The Products segment comprises our Onshore Wholesale business in three markets: the Americas, Europe and Asia. The three Product Verticals that were part of this segment exited the Group in 2018.

Onshore Wholesale Business

The Products segment consists of our Onshore Wholesale business operating as an onshore supplier in the Americas, Europe and Asia, supplying apparel and hard goods to largely the same customer base as our Supply Chain Solutions business. The Onshore Wholesale business also acts as an onshore importer for customers, where the terms of each order are agreed on a per-program basis, and our customer relationships are typically longer term and strategic in nature. The business accounted for 13% of Group turnover in 2019. In 2018 we made progress on the strategic development and repositioning of our Onshore Wholesale business to adopt a leaner, more agile structure, which allowed us to have an improved cost structure in 2019.

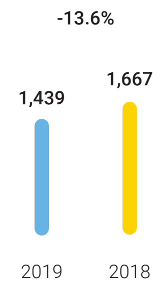
Onshore Wholesale Business Results

	2019 US$m	2018 US$m	Change %
Turnover	**1,439**	1,667	−13.6%
Total Margin	**263**	305	−13.6%
As % of Turnover	***18.3%***	*18.3%*	
Operating Costs	**220**	250	−11.9%
As % of Turnover	***15.3%***	*15.0%*	
Core Operating Profit	**43**	55	−21.7%
As % of Turnover	***3.0%***	*3.3%*	

TURNOVER

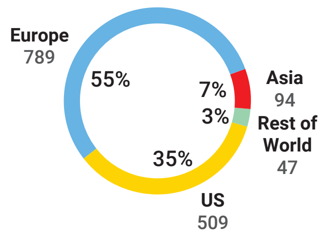
Turnover for the Onshore Wholesale business decreased year on year by 13.6% to US$1,439 million. While we continued to grow with key customers, European markets have been under pressure. The uncertainty concerning Brexit continued to weaken our business in the UK; in addition, customers in Europe have shown conservative buying patterns in our product areas, leading to reduced order volumes. As part of our customer portfolio management, we have proactively exited from non-strategic customers.

Onshore Wholesale Business Turnover
US$m



The US, Europe and Asia accounted for 35%, 55%, and 7% of segment turnover, respectively. Turnover in the US remained flat. While we restructured our product offering in the area of highly promotional items, our apparel turnover increased, which was driven by our successful focus on key accounts and continued product innovation. Turnover in Europe dropped by 19.4% due to the cautious buying patterns of key customers and economic uncertainties. Turnover in Asia decreased by 30.5% after more than doubling in 2018 as we continued to optimize our customer base in the region with a focus on high-quality customers both from total margin and credit risk perspectives. Nevertheless, we continued to see signs of growth with a number of key customers in Asia.

2019 Geographical Market Turnover
US$m

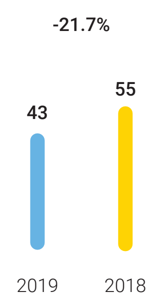


CORE OPERATING PROFIT

COP for Onshore Wholesale business decreased from US$55 million to US$43 million, mainly due to turnover decline. Total margin percentage remained flat at 18.3%.

COP margin decreased by 0.3 percentage point to 3.0%, which was largely driven by the reduction in turnover. Furthermore, we remained focused on restructuring the business to adopt a leaner, more agile structure, which lowered operating costs year-on-year by US$30 million.

COP
US$m

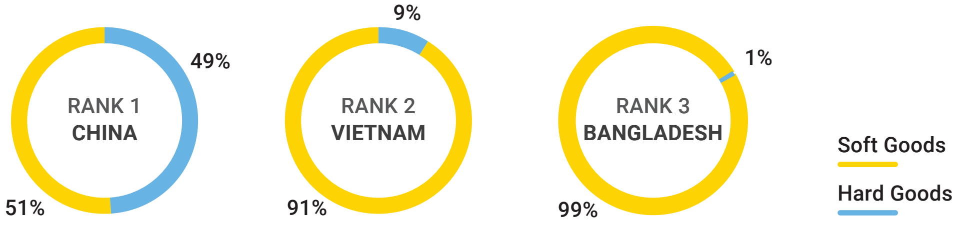


COP Margin -0.3 percentage point	
3.0%	3.3%
2019	2018

Top Sourcing Countries

Our global network of factories, which spans more than 50 economies, allows for flexibility when moving orders from one production country to another to better manage manufacturing constraints and optimize our customers' margins. In 2019, our top three sourcing countries were China, Vietnam and Bangladesh. We also have sizeable sourcing operations in other countries such as India, Indonesia and Cambodia. We are among the largest exporters in our product categories in our major sourcing countries. This comprehensive global network, combined with strong local presence, a 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

Our people are our most valuable resources. As at 31 December 2019, we had a total workforce of 16,796. The 16,796 workforce includes 9,473 warehouse-related employees primarily for our Logistics business. Total manpower costs in 2019 were US$654 million compared with US$711 million in 2018. We continue to enhance the productivity of our workforce and equip our people for the new digital world. We are grateful for our colleagues' commitment to build the supply chain of the future.

Balance Sheet and Capital Structure

STRONG CASH POSITION

Li & Fung continues to have a solid recurring cash flow and cash position. As at 31 December 2019, we maintained a cash position of US$932 million. Our capital structure and financial flexibility was strengthened by the US$300 million investment in LF Logistics by Temasek, which was completed in August 2019 and the bond refinancing in September and October 2019. Our operating cashflow, together with US$612 million cash on hand carried forward from 31 December 2018, funded our working capital, lease payments, capital expenditure, interest expenses, perpetual capital securities distributions, and dividend payments. To summarize key cashflow statement items:

- In 2019, cash flow from operating activities was US$281 million compared to US$368 million in 2018. This was mainly due to a decline in COP and additional reorganization costs, as well as the usage of working capital in 2019. Our management team and operations are focused on effective working capital management and are constantly monitoring and improving our working capital position. This resulted in a reduction in inventories, which was offset mainly by the increase in accounts receivable from the Global Brands Group and extended receivable terms from selected customers

- Lease payments amounted to US$167 million compared to US$158 million last year. The increase was due to the organic growth of the Logistics business

- Capital expenditures were US$73 million while tax paid was US$36 million

- Net interest expenses increased to US$55 million as in 2018 the Group benefited from interest income on the cash proceeds of the three Product Verticals divestment for two months before the payout of the special dividend and the redemption of perpetual capital securities

- The Group made an early redemption of US$376 million of the US$750 million maturing bond in May 2020 and issued US$500 million in bond maturing in 2024, proactively extending maturity and continuing the company's deleveraging and optimization of its capital structure

- Distributions to perpetual capital securities holders was US$34 million compared to US$49 million last year. The reduction was due to the redemption of US$500 million in perpetual capital securities in May 2018

- 2018 final and 2019 interim dividend payments totaled US$55 million which was supported by cash balance carried forward from 2018

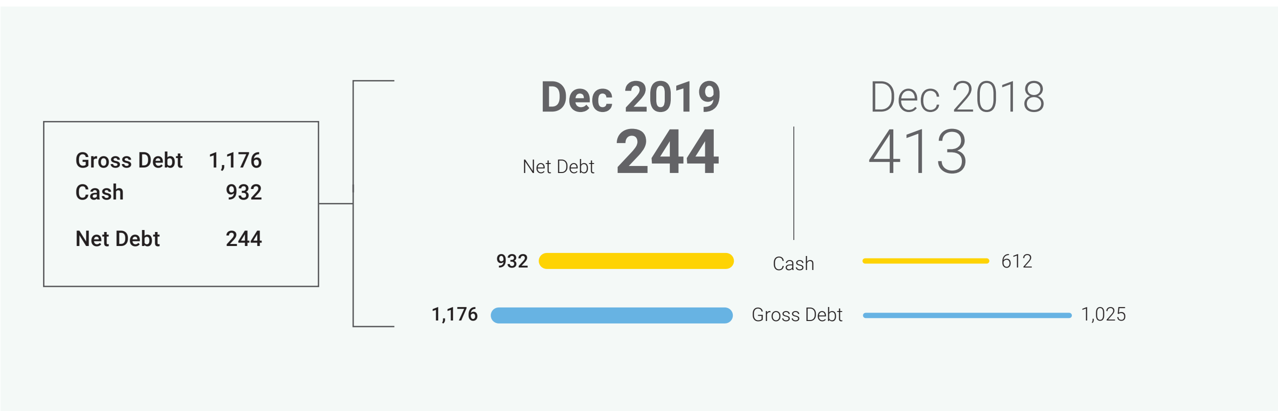
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was US$5 million as at the end of December 2019, of which US$3 million is earn-out payments. We continue to be asset light, and our ongoing total capital expenditures mainly include investments in digitalization and Logistics business expansion, as well as capital expenditures for continuing maintenance.

STRONG BALANCE SHEET

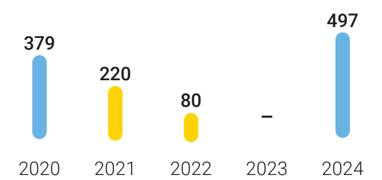
As at 31 December 2019, our cash position was US$932 million after payments of the 2018 final and 2019 interim dividends. We have also reduced the acquisition tail payments of our remaining consideration payable, further improving our balance sheet. After Temasek's US$300 million investment in LF Logistics, our net debt (total borrowings minus cash) was US$244 million and with our US$932 million cash on hand, our gross total borrowings were US$1,176 million as at 31 December 2019. Given the uncertainties in the global macroeconomic and geopolitical environments, we remain prudent and conservative in managing our balance sheet to maintain maximum financial flexibility. As at 31 December 2019, we had long-term committed bank loan facilities totaling US$856 million with tenures of one to three years. Such ample liquidity allows us to have maximum flexibility in managing our near-term debt maturity profile. We took an early draw-down of US$300 million from these long-term committed bank loan facilities in June 2019, ahead of the bond refinancing in the second half of the year. Our resulting cash position of US$932 million will assist prevent any unforeseen market-driven, geopolitical risk from impacting the repayment of the remaining US$374 million bond due in May 2020 and allow us to maximize flexibility in these times of uncertainty, considering the current uncertain geopolitical environment, particularly the trade war between the US and China, and the recent COVID-19 virus outbreak.

Our weighted average tenure of total borrowing, including the newly issued US$500 million bond, is more than 2.5 years. The majority of our debt is at a fixed rate and denominated in US dollars. Excluding the US$374 million bond due in May 2020 which we have sufficient cash on hand to cover, the weighted average tenure of total borrowing would be more than 3.5 years.

Cash and Gross Debt
US$m



Debt Maturity Schedule
US$m



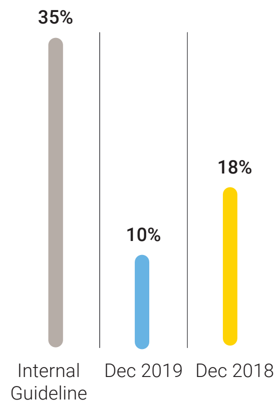
	2020	2021	2022	2023	2024
Bank Loans	5	220	80	–	–
Bonds	374	–	–	–	497

Gearing Ratio and Current Ratio

After adopting the new accounting standard HKFRS 16, our gearing ratio and current ratio were 10% and 1.1 respectively as at 31 December 2019 (18% and 1.0 respectively as at 31 December 2018). 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 loan 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. The current ratio improved to 1.1.

We continued to take a conservative approach in managing our balance sheet and capital structure. As at 31 December 2019, our credit rating was Baa3 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.

Gearing Ratio



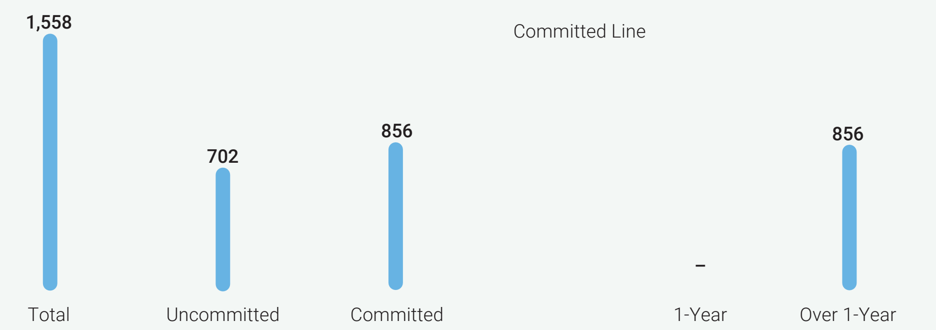
Credit Rating

Banking Facilities

Bank Loans and Overdrafts

As at 31 December 2019, we had available bank loans and overdraft facilities of US$1,558 million, of which US$856 million were committed facilities. The committed facilities have a tenure over one year with maturities in 2021 and 2022, with US$300 million drawn and US$556 million undrawn. On both a committed and uncommitted basis, only US$305 million of the Group's bank loans and overdraft facilities was utilized. Unused limits for bank loans and overdraft facilities amounted to US$1,253 million, with US$556 million being unused committed facilities.

Bank Loans and Overdraft Facilities
US$m



	Total	Uncommitted	Committed
Used	305	5	300
Unused	1,253	697	556

Trade Finance

The Group's normal trading operations are well supported by US$1.2 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 2019, only approximately 13% of the trade finance facilities was used.

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 success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linked to the future performance of the acquired businesses. We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised), Business Combinations.

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

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

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

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain purchase consideration payables should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale and purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and based on a specific formula linking to a particular threshold, the underlying performance of the acquired businesses could continue to grow, yet we may still be required to adjust the purchase consideration payable, especially if the high performance thresholds of earn-ups are not reached.

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 2019, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an on-going basis.

Adoption of New Accounting Standard, HKFRS 16, Leases

HKFRS 16, which specifies how a company should recognize, measure, present and disclose leases, became effective in 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term or low value leases that the lessees choose to exclude from the requirements. Specifically, all leases must be recognized in the balance sheet as right-of-use assets and lease liabilities. The lease liabilities and the right-of-use assets are unwound over the term of the lease giving rise to interest expenses and depreciation charges, respectively. To maintain the consistency of our consolidated financial statements throughout the year, we have elected to apply the standard retrospectively with prior year comparatives restated. Applying this new accounting standard resulted in an increase in right-of-use assets and lease liabilities of US$392 million and US$421 million, respectively, as at 31 December 2018 and a decrease in net profit of US$3 million for the year ended 31 December 2018. Further information about the application has been set out in Note 1 to the financial statements.

Risk Management

We implement various policies governing accounting control, credit and foreign exchange risk, and treasury management.

Credit Risk Management

We are exposed to credit risk from our operating activities. This arises primarily from our principal trading business, where we act as a supplier, and working capital solutions, where we settle invoices earlier at a discount to certain suppliers via LF Credit. We therefore assume direct counterparty risk for our customers in terms of these account receivables and inventory.

All new customers undergo a risk assessment process prior to trade terms being agreed in accordance with our global credit risk management framework. These assessments focus on the financial strength of individual customers as well as information specific to the customer and the economic environment in which each customer operates. To further reduce our exposure to credit risks, (a) we would require collateral (such as standby or commercial letters of credit, or bank guarantees) from customers if necessary, and (b) we have also taken out trade credit insurance to protect against losses arising from non-payment, and have entered into trade receivables factoring agreements with financial institutions on a non-recourse basis. Both receivable balances and inventory levels are reviewed regularly according to our credit policies and follow-up action is taken to recover overdue balances. Furthermore, our management reviews regularly the recoverable amount of our trade receivables to ensure that adequate impairment provision is made.

Global Brands Group Holding Limited ("GBG"), a connected person of the Company after its spin-off from the Group in July 2014, is a key customer of our Supply Chain Solutions business. In 2019, the total accounts receivable from GBG increased to US$534 million from US$453 million, excluding those arising from purchases made by GBG on behalf of the business it already divested in 2018. This increase was mainly due to the slowdown in settlement of goods shipped to GBG during the year. Following the divestment of its US wholesale business in October 2018, GBG underwent major restructuring efforts to turn around its business by substantially reducing its operating costs and exiting or closing less-profitable brands. Whilst GBG's financial condition has improved as a result of these restructuring efforts and the further injection of shareholders loans of approximately US$292 million (announced by GBG in May 2019), GBG's cash flow, which was partly impacted by one-time restructuring charges, was not yet sufficient to settle all shipments of goods on time in 2019.

Due to the slowdown in the settlement of accounts receivable, the aging profile of accounts receivable from GBG deteriorated in 2019 with US$148 million overdue 91 to 180 days and US$141 million overdue 181 to 365 days (compared to US$77 million overdue 91 to 180 days and US$15 million overdue 181 to 365 days as at the end of 2018). GBG continues to pay and settle its outstanding receivables on a monthly basis. There are no accounts receivable being overdue more than 365 days. Accordingly, and in compliance with our accounting policies, the Company has concluded that no accounts receivable provisions are required as at 31 December 2019.

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.

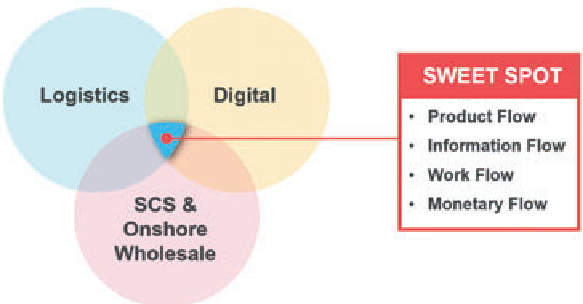
For transactions that are subject to foreign exchange risk, we hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary 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 year 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.

Strategic Direction and Key Initiatives

As the retail industry continues to undergo exponential change driven by technology and consumer behavior, our goal to create the Supply Chain of the Future remains ever more relevant. Building on the foundation we created over the previous three years, we have set the long-term strategic direction and key initiatives. This centers on leveraging our scale and scope, and focusing on execution and operational excellence to enhance our overall service offering. We plan to leverage the scale and scope of our combined Supply Chain Solutions, Logistics and Onshore Wholesale businesses, as well as our digital applications to further differentiate ourselves against the competition — including our customers' own in-house teams — in providing end-to-end supply chain services. The intersection of these three areas also gives us access to the product, information, work, and monetary flows of the global consumer goods supply chain. We will capitalize on this powerful sweet spot to generate insights and business value for our customers and ourselves.



Our intention is to further elevate our sense of urgency towards execution and agility in all that we do. Whether it is responding to a customer request, rolling out internal process improvements, or pivoting our strategy, we will focus on what we call "the urgency of now" to make things happen, and unleash more potential throughout our people and organization in next few years.

Our strategic direction encompasses our strategies in account management, business development and vendor management as well as our newly established centers of excellence in denim, costing and fabric. Operational excellence and digital services will be our key enablers, underpinned by our commitment to a "people first" philosophy.

Strategies: We have made encouraging progress in account management for our current customers, the pursuit of new customers through our business development efforts and the creation of a sourcing and production platform across countries to focus on our vendors. Over the next few years, we intend to continue to strengthen our core foundation in each of these areas with a more comprehensive service offering that combines sourcing, logistics and digital services.

With a focus on execution, we will establish a set of detailed KPIs to track our performance. Account management performance will be tracked by scorecards aligned with our key customers and via Net Promoter Score (NPS) survey. Business development will be measured by the number of new accounts, nature of commercial terms, and effectiveness of the on-boarding process. Vendor management will be measured by optimal country of production strategy, vendor capacity management and raw materials sourcing. We will subject each of these strategies to a risk mitigation test that identifies, evaluates, monitors, controls and minimizes the associated risks.

Centers of Excellence (COEs): To further leverage our scale and scope, we are creating three new COEs, in denim, fabric and costing. The denim COE captures the megatrend of casualization, focusing on helping our customers produce differentiated denim products. The fabric COE leverages our convening power to facilitate the cost-effective, efficient sourcing of fabric materials. The costing COE allows us to achieve the optimum cost level, given the required quality standards.

Enablers: Focusing on operational excellence and investing in digital capabilities as key enablers that will help us achieve our strategic goals. Operational excellence will continuously improve our operational flows and business processes, which in turn will improve our customer service levels and streamline our cost structure. Meanwhile, our ongoing investment in digital capabilities will further differentiate our integrated service offerings and help us win market share with leading brands and retailers by purposefully integrating their front and back ends.

People First: Our success rests on the ability and contribution of our people. As our most valuable resources, it is our people who create the experiences that delight our customers and it is our customers' ongoing support that generates revenue. We introduced the new structure and leadership team last year and we will continue to ensure that our structure is fit for purpose and we have the team with the right skill sets. Responsibilities for account management, business development and the digital platform are clearly defined, and colleagues will be incentivized according to a new reward system that will be rolled out in 2020.

Outlook

Uncertainties in the global trade landscape will continue to affect the supply chain over the next few years. The conclusion of phase one of the US-China trade negotiations created a temporary window of respite, but without clearly defined goals and a set time frame, phase two may prove to be more difficult. The migration of production out of China is driven not only by tariff increases but also the country's push to transform from a manufacturing exporter into a high-end value-added service provider. We believe this trend will continue and more retailers will pursue a diversified supply chain network. Given the continuing macroeconomic and geopolitical challenges, we plan to continue to assist our customers in navigating the complex supply chain and optimizing their sourcing and production through our global network of more than 50 economies.

We expect that geopolitical uncertainty and its impact on the global supply chain will further intensify in 2020. The entire supply chain from upstream raw materials sourcing to downstream production and shipping will need to be completely rewired and transformed. This will add to near-term challenges and potential disruptions in the global trade flow.

At the time of writing, the COVID-19 virus has already spread to more than 100 countries around the world and the situation is still escalating. There have been quarantines and travel restrictions of unprecedented scale, causing simultaneous disruptions on both supply and demand sides of the economy. China's supply chains are gradually returning to normalcy but other countries might experience the same disruption cycle. The global outbreak is negatively impacting consumer sentiment and mid-tier, non-essential consumer goods are likely to be hit hardest. The overall retail demand environment for years to come may also be affected. Retailers are already discounting their goods and accumulating inventory due to weak consumer demand. They will also be reassessing their supply chains for the next few months. As retailers switch to airfreight rather than shipping, and weak demand leads to order cancellations, our margin and turnover could be affected. So far, retail has been weak over the first two months of 2020, and the COVID-19 virus impact is adding even more volatility and uncertainty to our 2020 outlook, especially that of our Logistics business operating in China and various Southeast Asian countries.

We expect the multi-year destocking trend in retail to continue in 2020. While innovations in the retail industry are creating more opportunities for our new services, they will also cause more disruptions for some of our customers, potentially bringing about further store closures. Earlier decisions by some of our customers to bring their supply chain management in-house will take some time to complete as there is typically a transition period of many months, and we expect to continue experiencing some negative top-line financial impact as a result. In addition, we continue to recalibrate our customer base to optimize the risk-reward balance. Revenue contributions from customers with higher margins but also higher credit risk is likely to decrease, negatively impacting turnover and total margin. All these factors will remain headwinds for our business. However, the pressure will be alleviated by a few factors.

First, under our new organizational structure and leadership, our account management function is now singularly focused on providing the optimum customer service and curating the best experience for our customers. As customer satisfaction improves, we expect our market share with existing customers to increase over time.

Second, our customer focus is supported by the enhanced operational excellence of a truly global sourcing and production platform. The transformation of the platform in 2019 has resulted in better operating leverage and faster response times for our customers. Many changes were modeled on our India business, which enjoyed substantial improvement in operational performance. We are confident that these changes will lead to higher levels of customer satisfaction and more business opportunities. We expect to continue our restructuring and reorganizing efforts over the course of the next few years, aimed at continued improvement in productivity and rightsizing of our overall operating cost base.

We expect the Onshore Wholesale business to remain under pressure. The cost structure of the business has improved, and productivity drives will continue. However, now the spread of COVID-19 virus in the US and Europe, and Brexit may negatively impact consumer sentiment in the UK and other major countries, potentially impacting the top line and margin.

The strong organic growth momentum of the in-country logistics business is expected to face some headwinds in 2020 due to the economic slowdown in China and the impact of the COVID-19 virus outbreak in China and the various Asian countries. The global freight management business may continue to experience challenges arising from uncertainty around US-China trade relations and shipment delays due to production interruption in China and potentially other Asian countries as the virus outbreak expands to more countries across the globe. Nevertheless, we continue to believe in the long-term growth prospects of the Logistics business. Facing these adversities, we are taking actions to mitigate the impact through aggressive productivity improvement and cost control initiatives. The Temasek investment of US$300 million is a clear indication of the long-term value of the business. This will provide the Logistics business with sufficient capital to resume its growth and capture the rising consumption of the middle-income class in Asia in the medium- and long-run.

As for the SCS and Onshore Wholesale businesses, the loss of working days and backlogs at Chinese ports due to the COVID-19 virus outbreak may cause delays in production and shipment, especially in the first half of 2020. While we continue to assist our customers in transferring production out of China, we expect near-term impact of shipment delays and customers becoming more cautious in placing new orders. As the outbreak expands into North America and Europe, it may further affect retail sentiment, which is already being battered by economic weakness. At this juncture, we believe the impact will be felt throughout the year. We expect to provide a more informed discussion on this topic in our 2020 interim results. Nevertheless, our diversified sourcing platform is designed to withstand these sudden disruptions in the supply chain, and we are actively assisting our customers in alleviating the impact.

Finally, turning to our digital platform, 3D virtual design and digital product development will continue to be key priorities. Our digital platform will be developed to enhance our customers' product development capabilities through improved processes and efficiency, as well as to design a completely new way to approach the product development cycle for the omni-channel retail. In the longer run, the platform will be the basis of a fully integrated, end-to-end responsive supply chain that covers physical, digital and financial flows. Continued spending will put pressure on our operating margin, but we believe that digitalization is necessary for the long-term business success of Li & Fung. Digitalization initiatives have already started to deliver results and we expect more tangible returns from these initiatives.

Our Commitment to Good Governance

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


CINEMA 4D
Window
File Edit Create Select Tools Mesh Snap Animate Simulate Render Sculpt Motion Tracker MoGraph Character Plugins Script
View Cameras Display Options Filter Panel
Perspective

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 Directors and five Independent Non-executive Directors. While the Board considers that this composition remains balanced and able to reinforce a strong independent review and monitoring function of overall management practices, the Board has taken steps to identify additional Independent Non-executive Directors with due regard for the benefit of diversity on the Board. Directors' biographical details and relevant relationships are set out in "Our Board and Management Team" section on pages 62 to 71.

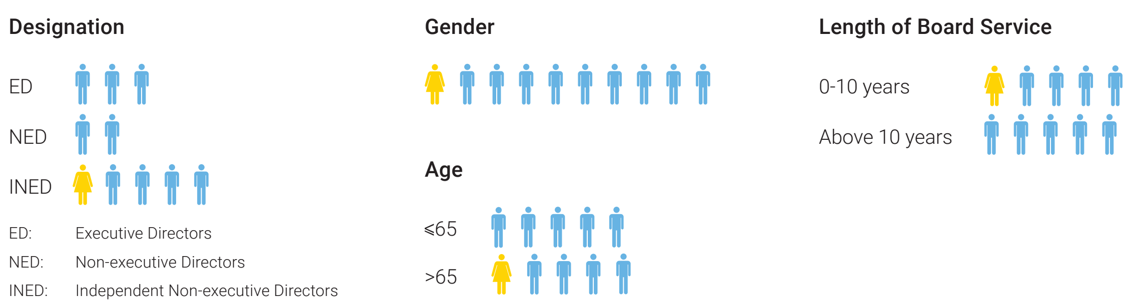
Board Diversity

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

Visit our website to download our Board Diversity Policy.

The profile of our Board members is as follows:



Group Chairman and Group Chief Executive Officer

The role of the Group Chairman remains separate from that of the Group Chief Executive Officer to enhance their respective independence, accountability and responsibility.

Their responsibilities are clearly established and defined in writing by the Board.

GROUP CHAIRMAN

Responsible for ensuring the Board is functioning properly, with sound corporate governance practices and procedures.

GROUP CHIEF EXECUTIVE OFFICER

Responsible for managing the Group's business, including the implementation of strategy and initiatives, with the support of Executive Directors and senior management, and within those authorities delegated by the Board.

Roles and Responsibilities of the Board

The Board is responsible for setting the overall values, standards and strategy of the Group and reviewing its operation and financial performance.

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

Matters Reserved for Decision or Consideration by the Board

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

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

Delegation to Management

Operational responsibilities delegated by the Board to management include:

- Preparation of the annual and interim financial statements for Board approval before public reporting
- Execution of business strategies and initiatives adopted by the Board
- Monitoring of operating budgets adopted by the Board
- Implementation of adequate systems of risk management and internal control
- Compliance with relevant statutory requirements, rules and regulations

Board Evaluation

The Board recognizes the importance and benefit of conducting regular evaluations of its performance to ensure effectiveness. Since 2013, the Board has adopted a structured process to evaluate its own performance and directors' contribution on an annual basis, including a self-evaluation questionnaire to each Director, seeking views on the overall performance of the Board and its committees, its composition, conduct of Board meetings, provision of information and areas for improvement. The responses are analyzed and discussed by the Board and suggestions are incorporated to improve corporate governance. The results of the 2019 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. The Directors are satisfied that the Board and its committees have the right mix of expertise, experience and skills.

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 2019. 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 2019, 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 2019 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 Independent Non-executive Directors, two separate meetings were held in 2019 without other 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 2019.

Liability Insurance for the Directors

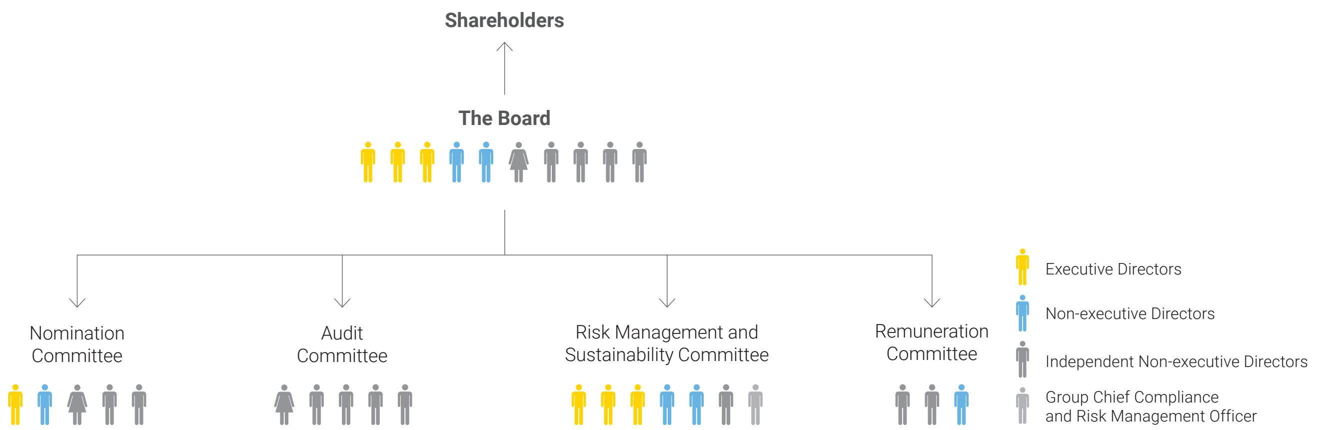
Details of liability insurance to indemnify the Directors for their liabilities arising out of corporate management activities are disclosed in the "Report of the Directors" section on page 134.

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 2019 annual general meeting to answer any questions from Shareholders on the audit of the Group.

In 2019, the Board held nine meetings with an average attendance rate of 98%. Below is a summary of the Board and committee composition, and meetings held in 2019.

The Board and Shareholders



BOARD AND COMMITTEE MEETINGS FOR YEAR 2019

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

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

	Board	Nomination Committee	Audit Committee	Risk Management and Sustainability Committee	Remuneration Committee	Annual General Meeting
Victor Fung Kwok King [1]	9/9	N/A	N/A	4/4	1/2	1/1
Marc Robert Compagnon [2]	9/9	N/A	N/A	3/4	N/A	1/1
Allan Wong Chi Yun [3]	8/9	N/A	4/4	4/4	2/2	1/1
Martin Tang Yue Nien [4]	9/9	1/1	4/4	N/A	2/2	1/1
Margaret Leung Ko May Yee [5]	9/9	1/1	4/4	N/A	N/A	1/1
Chih Tin Cheung	9/9	N/A	4/4	N/A	N/A	1/1
John G. Rice [6]	8/9	N/A	4/4	N/A	N/A	1/1
William Fung Kwok Lun [7]	9/9	1/1	N/A	4/4	N/A	1/1
Spencer Theodore Fung [8]	9/9	N/A	N/A	4/4	N/A	1/1
Joseph C. Phi [9]	9/9	N/A	N/A	2/3	N/A	1/1
Jason Yeung Chi Wai [10]	7/9[10]	1/1[10]	4/4[10]	4/4	1/2[10]	1/1[10]
Average attendance rate	**98%**	**100%**	**100%**	**93%**	**83%**	**100%**
Dates of meeting	27/2/2019[11] 21/3/2019 23/5/2019 26/6/2019[11] 21/8/2019 22/8/2019 20/9/2019[11] 26/9/2019[11] 21/11/2019	20/3/2019	20/3/2019 22/5/2019 21/8/2019 21/11/2019	23/1/2019 17/5/2019 13/8/2019 15/11/2019	22/5/2019 21/11/2019	23/5/2019

1. Honorary Chairman, Chairman of the Risk Management and Sustainability Committee, and appointed as a member of Nomination Committee with effect from 22 March 2019
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. Independent Non-executive Director and appointed as a member of the Nomination Committee with effect from 22 March 2019
7. Chairman of the Board
8. Group Chief Executive Officer
9. President of LF Logistics, appointed as Group President with effect from 28 January 2019 and as a member of Risk Management and Sustainability Committee with effect from 22 March 2019
10. Group Chief Compliance and Risk Management Officer, attended Board and Committee meetings as a non-member
11. Held by telephone conference

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 once in 2019 (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 2019 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 2019 (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 2019, the Committee's review covered:

- Internal auditor's audit findings
- External auditor's audit plan for 2019 and audit findings
- The external auditor's independence and provision of non-audit services
- The Group's accounting principles and practices, goodwill assessment, Listing Rules and statutory compliance, connected transactions, risk management and internal controls, and treasury and financial reporting matters (including the interim and annual financial reports for the Board's approval)

- Updates on the changes to the accounting standards and the Hong Kong Companies Ordinance, and their respective impacts to the Company
- Risk highlights (particularly US-China Trade War and Brexit, credit, global tax regime, cyber security, anti-corruption and supply chain sustainability) facing the Group
- Update on payment status of trade receivable from a related company
- Renewal of continuing connected transactions
- 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
- Case of serious misconduct in relation to staff advances and claims, and the corresponding policy and internal control enhancement

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 2019, one incident of fraud regarding staff advances and claims was investigated and reported. We have reported the case to the local law enforcement authority and the respected loss is being assessed for claiming under insurance. The relevant internal control system was further strengthened. 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 was 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 2019, the external auditor provided permitted non-audit services mainly on tax compliance services. The nature and ratio of annual fees to the external auditor for non-audit services and for audit services in 2019 have been scrutinized by the Audit Committee (Refer to details of fees to auditor in Note 4 to the "Financial Statements" on page 180).

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 2019 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 2020 as the Company's external auditor at the forthcoming annual general meeting.

Risk Management and Sustainability Committee

The Risk Management and Sustainability Committee was established in 2001 and is chaired by the Honorary Chairman. Its written terms of reference include offering recommendations to the Board on the Group's risk management and internal control systems, and reviewing the Group's practices and strategies on corporate responsibility and sustainability. The Committee reports to the Board in conjunction with the Audit Committee.

The Risk Management and Sustainability Committee met four times in 2019 (with an attendance rate of 93%) 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 2019:

- Implementation of a new policy on international trade compliance
- Implementation of a separate anti-harassment and anti-discrimination policy, supplementing existing expectations outlined in the Code of Conduct and Business Ethics
- Cybersecurity matters including an update on the Group's anti-phishing campaign and the implementation of multi-factor authentication to further enhance security
- Updates on matters related to our corporate responsibility and sustainability initiatives and overall supply chain management and partnerships
- Risk mitigation strategy for modern slavery in the supply chain and an update of the annual disclosure statement on modern slavery
- Revision of the Supplier Code of Conduct to reflect the latest changes in applicable laws and regulations, international standards, customer values and requirements

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 2019 (with an 83% attendance rate) to review and determine the Directors' fee and the granting of Award Shares.

Details of Directors' and senior management's emoluments of the Company are set out in Note 10 to the "Financial Statements" on page 183 and Note 42 to the "Financial Statements" on pages 231 to 233.

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 Award Shares under long-term incentive schemes, i.e. Share Option Scheme and Share Award Scheme. The vesting of Share Options and Award Shares 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 those paid by the companies with shares listed on the Stock Exchange 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 2019, 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 67.

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 2019, specific confirmation of compliance has been obtained from each Director. No incident of non-compliance by Directors and relevant employees was noted in 2019.

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 134 to 136. The Shares held by each member of senior management are less than 2% of the issued share capital for the year ended 31 December 2019.

Directors' Responsibility for Financial Statements and Auditor's Responsibility

The Directors' responsibility for preparing the financial statements is set out on page 137, and the auditor's reporting responsibility is on pages 140 to 141.

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 2019.

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 122.

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 2019. 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. In 2019, our consistent effort has earned us awards from the Hong Kong Investor Relations Association.

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.

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

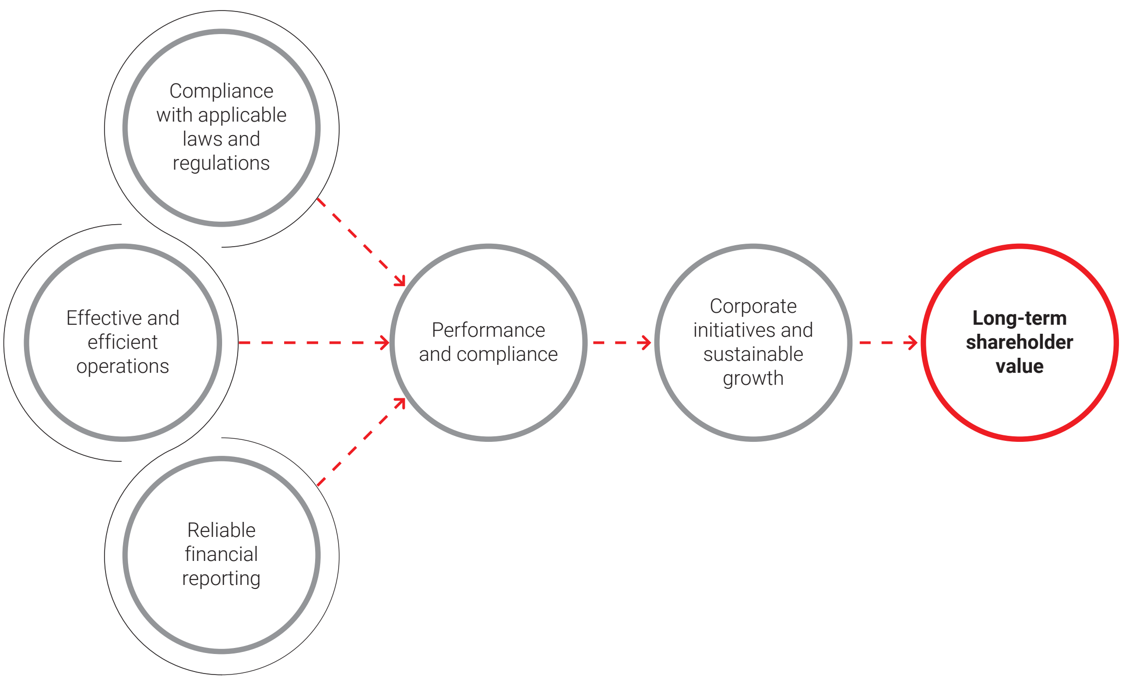
Li & Fung acknowledges that risk is inherent in our business and the markets in which we operate, and we undertake and monitor risk in pursuit of our strategic and business objectives. The challenge is to identify, understand and manage risks so they can be minimized, transferred or avoided. This demands 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.

Our Internal Control Framework is Designed to Achieve



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 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	• 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.

As part of our continuous effort to manage business risk in this complex and fluid operating environment, in 2019, a new Enterprise Risk Management (ERM) function was established within the Group Legal division to centrally manage the Group's insurance portfolio, loss prevention and investigation, trade compliance, and data privacy and protection. We believe that the ERM department can assist the Group to manage risks proactively and to develop in-house expertise in these specific areas.

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 Functions Group to centrally process business support activities and exercise control over global treasury activities, financial and management reporting, human resources and information technology systems. This ensures adequate segregation of duties and a series of checks and balances between Functions Group 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, human resources 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 2019, we reviewed and updated our global as well as country-specific guidelines on business continuity plan in response to the changing business environment.

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 38 and 39 to the "Financial Statements" on pages 220 to 225.

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:

- 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 cases of 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 that 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.

Our Business Ethics and Integrity Education Working Group (Working Group), led by our Learning & Development (L&D) team was formed in 2017. The Working Group comprises members from L&D, 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&D 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. Details of our business ethics training delivered to our employees in 2019 are outlined in "Our People" section on pages 86 to 87.

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 on pages 96 to 98, 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, workforce intensity, compliance culture, fraud and 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 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 2019, we updated and 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.

Our response to certain significant emerging rules and regulations are outlined as follows:

BEPS

With the launch of Organization for Economic Co-operation and Development (OECD)/G20's "Base Erosion and Profit Shifting" (BEPS) projects, the tax landscape worldwide has been changing significantly towards greater tax transparency and certainty.

As an increasing number of countries, including countries beyond the OECD and G20 members, have gradually made the BEPS-driven changes to their domestic tax laws, cooperation between multinational tax authorities have been enhanced. Our in-house taxation experts and external advisors have been working closely on aligning our processes and practices to ensure compliance with the relevant new requirements.

Trade Compliance

Countries and regions in which we do business, including the US, China and the European Union, as well as the United Nations, have imposed sanctions on certain individuals and countries with whom transacting business is prohibited or restricted. As a global supply chain solutions manager, we always aim to conduct our business honestly and in compliance with the relevant trade compliance laws and regulations.

To further enhance our internal processes on trade compliance, we implemented a new trade compliance policy in 2019. The policy covers prohibition and restriction of transactions and business dealings, directly or indirectly, with a list of identified territories. All directors, officers and employees of the Group no matter where they are located or what their position is, are required to comply with the policy. The policy also applies to all non-Li & Fung persons or companies who perform services on our behalf.

6. INFORMATION TECHNOLOGY RISK MANAGEMENT

With the evolving cyber-threat and the importance of protecting our business partners and employee data, we continue to invest in cybersecurity by aggressively enhancing our technical and human capabilities to ensure protection and business continuity.

In 2019, our Information Security Management System was re-certified for ISO 27001. We also recognize that our employees are one of our most active defenses against newly emerging and evolving cybersecurity threats. Hence, we have further strengthened our resources, particularly in the Information Security area with an extended global team structure, skills and experience. Security awareness has also become a significant activity that takes place for all employees. This training focuses on their responsibilities in protecting the company's information against cybersecurity threats, and how they are one of the critical safeguards.

To maintain an influential threat prevention culture from reaching our users, a more robust authentication mechanism has been adopted with cutting-edge international standards to safeguard our company against breaches due to lost or stolen credentials.

Cloud computing plays a more significant role for businesses relying on data being available to perform business operations that meet our customer's expectations. Adoption of cloud technology is modernizing our business and enabling us to provide more stable and robust systems.

We strive to uphold and continually evolve our capabilities to prevent, detect, and respond to cyber threats and safeguard the needs of our customers and employees in an ever-evolving threat landscape.

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 and related extreme weather events.

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 2019, 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 2019.

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 2019.

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 2019:

- 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

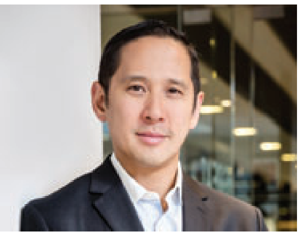
Board Member Biographies

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

Aged 74. 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). Invited by the Hong Kong Government in February 2019 to lead the Group of Experienced Leaders on Future Fund to make recommendations on longer term investment strategies with a view to securing higher returns. A member of the Council of the Hong Kong Laureate Forum since its launch in May 2019. Adviser of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority. Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development. 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. Conferred Fellow of the Hong Kong Academy of Finance in June 2019, which was set up to nurture financial leaders in Hong Kong. Honoured with the Lifetime Achievement Award in the 2019 DHL/SCMP Hong Kong Business Awards in December 2019.

William FUNG Kwok Lun
Group Chairman

Aged 71. 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, by Hong Kong Baptist University and Degree of Doctor of Letters, *honoris causa*, was conferred by Wawasan Open University of Malaysia. An independent non-executive director of VTech Holdings 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. 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 46. Group Chief Executive Officer since July 2014 and Executive Director since 2008. Previously Group Chief Operating Officer, 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. Previously a US Certified Public Accountant. The son of Victor Fung Kwok King, Honorary Chairman, and nephew of William Fung Kwok Lun, Group Chairman.

Board Member Biographies (continued)

Marc Robert Compagnon
Non-executive Director

Age 61. Non-executive Director of the Company 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
President of LF Logistics

Age 57. Executive Director of the Company since January 2018. Group President since January 2019 leading the Company's Supply Chain Solutions operating groups, including business development. Also President of LF Logistics, managing the Group's logistics business. 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. A director of GS1 Management Board and former chairman of GS1 Hong Kong (December 2008–December 2019). 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).

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

Age 69. 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.

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

Age 67. 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 Agricultural Bank of China Limited. Formerly, an independent non-executive director of China Construction Bank Corporation (2013–2016), QBE Insurance Group Limited (2013–2017), Hong Kong Exchanges and Clearing Limited (2013–2019) 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.

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

Age 70. 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.

Board Member Biographies (continued)

Chih Tin Cheung
Independent Non-executive Director

Age 49. 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

Age 63. 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

Aged 53. 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 PricewaterhouseCoopers. 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.

Edward Lam Sung Lai
Chief Financial Officer

Age 65. 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.

Jason Yeung Chi Wai
Group Chief Compliance and Risk Management Officer

Aged 56. 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.

Terry Wan Mei Chow
Company Secretary

Senior Management Biographies

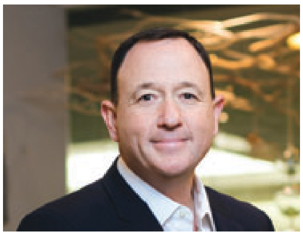
Fanny Cheng Pui Wah
President of Supply Chain Solutions

Age 52. President 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

Age 55. 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.

Age 49. 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 of
Supply Chain Solutions

Age 58. 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

Senior Management Biographies (continued)

Darren Peter Palfrey
Chief Digital Officer

Age 43. 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.

Deepika Rana
President of Supply Chain Solutions

Age 58. President of Supply Chain Solutions, responsible for managing customer relationships, building strategic goals, driving business growth, managing the profit & loss and 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 in 2014. Extensive experiences 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.

Zhu Weizhong (Wilson)
Chief Operating Officer

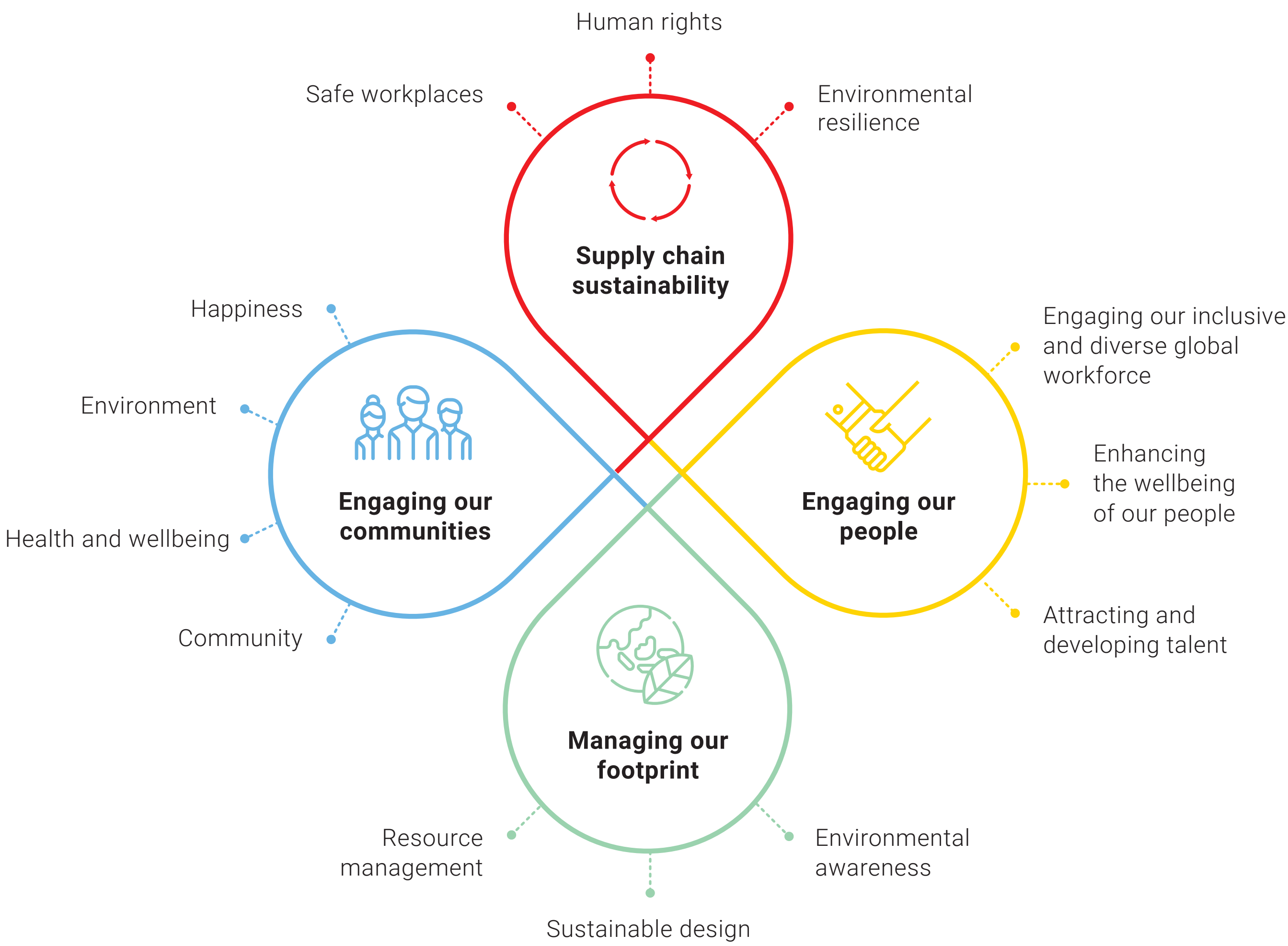
Age 67. Chief Operating Officer. Joined the Group in October 2018 to drive operational excellence in the Company's global production platform. In 2016, cofounded Cooper Aerobics Wellness Center in China, the first fitness and wellness center of its kind in China. Prior to that, served as chairman and 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.

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

2019 marks the tenth 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 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, for over 2,000 customers globally. With no factory ownership, we are an asset-light organization using our 16,796 people and 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 who are touched by it.

We have been evolving our holistic Sustainability Strategy for over ten 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 of increasingly scarce resources with severe levels of pollution and environmental degradation. These issues, exacerbated by the impact of climate change, pose risks and opportunities to evolve our Sustainability Strategy and day-to-day activities. With increased transparency and action, we aim to improve working conditions and environmental performance in both our own operations and in factories, and to 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 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 (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.

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 2018 Communication of Progress – https://s3-us-west-2.amazonaws.com/ungc-production/attachments/cop_2019/477993/original/UN_GlobalReport_2018_FINAL.pdf?1567184477

In August 2019 at the G7 summit, we joined forces, as part of Fung Group, with 250 of world's biggest fashion and textile companies to sign The Fashion Pact, committing the 56 signatories to improving sustainability standards in the fashion industry. The Fashion Pact outlines what our industry will do to safeguard the planet by stopping global warming, restoring biodiversity and protecting the oceans.

Our Logistics business also signed the Arctic Shipping Corporate Pledge in October 2019, launched by Nike and the Ocean Conservancy. As a signatory, we are one of 20 consumer goods and shipping logistics companies, that commit to not intentionally ship goods through the Arctic Passage. The initiative closely aligns with the goals of the Fashion Pact, as well as our commitment to pollution prevention.

We have made progress in support of the goal of our Three-Year Plan (2017–2019) and beyond to help improve the lives of a billion people along our supply chain. We do this by continually 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 SDGs where we can focus our actions for impact.

In 2019, we were recognized as one of 23 companies in Asia to receive the Asset ESG Corporate Awards 2019 — Platinum Award, and one of four to be recognized for 11 consecutive years. We also received the Hong Kong Corporate Governance Excellence Award 2019 — Award for Sustainability Excellence, organized by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University as well as the Hong Kong Award for Environmental Excellence — Silver Award for the Servicing and Trading sector and the Hong Kong Green Organization Certificate 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. In Hong Kong, we are on the Hang Seng Corporate Sustainability Benchmark Index and are recognized as a Caring Company by the Hong Kong Council for Social Service. 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.

Our Stakeholders

Understanding the needs, concerns and views of our stakeholders, engaging them in regular, open dialogue, and integrating their 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 • Customer Satisfaction Program to enhance our services by obtaining and measuring customer feedback in a systematic manner – Net Promoter Score — invites selected customers to indicate how likely they are to recommend us to colleagues and peers – Operational Survey — invites selected customers to fill in a questionnaire on our services and customer strategy – Voice of the Customer — senior managers collect direct feedback from our customers
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 • Updated Supplier Code of Conduct to drive responsible business practices in our supply chain and related training
Investors, shareholders, analysts and creditors	• Communication, meetings, briefings and investor conferences • Investors, shareholders and other stakeholders can request information and feedback through our IR team and 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[3], 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[4] regularly and through events
Media	• Communication, meetings, briefings and press conferences • Media can request information and feedback through our media team, website and PR agency

Further information on how we engage our stakeholders is outlined in the other sections of this Annual Report and in the *Li & Fung's Shareholders' Communication Policy*[5]. We welcome feedback on our Sustainability Strategy, stakeholder engagement, material issues and reporting at ir@lifung.com.

3 Hong Kong General Chamber of Commerce and International Chamber of Commerce.
4 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.
5 https://www.lifung.com/wp-content/uploads/2018/03/Shareholders-Communication-Policy-20160113-Eng.pdf

Engaging a Key Stakeholder — Our Customers

As an example of deeper engagement with one stakeholder group — our customers — we launched a new Customer Satisfaction Program with the objective of enhancing our services by obtaining and measuring customer feedback in a systematic manner. This is an ongoing initiative comprised of three components: Net Promoter Score, Operational Survey and a revamped Voice of Customer (VoC). The results are analyzed and benchmarked over time to drive improvements.

Net Promoter Score is a quarterly exercise that invites selected customers to indicate how likely they are to recommend Li & Fung to colleagues and peers. Respondents are also asked to give reasons for their scores and provide suggestions. The Operational Survey is conducted semi-annually for selected customers to complete a questionnaire on our services and strategy. For the VoC, we collect direct feedback from the senior management of our customers through in-person interviews.

In 2019, we conducted our third, annual VoC survey, targeting 15 key customers in the apparel, accessories and hardgoods sectors. We also conduct separate semi-annual surveys to gather specific feedback on key service aspects from functional leads within our customers, as well as quarterly "pulse checks" for feedback across our customers' employees.

For the VoC survey, team leaders interview our customers' management 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 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.

Overall, our survey results are improving year on year. As with previous years, the 2019 results show that customer perceptions vary and there are areas to reinforce and continue and others requiring improvement. Headline feedback included the importance of implementing a more structured approach to "closing the loop" on feedback provided by customers and of continuing to ensure a consistent delivery of sourcing solutions across our global organization.

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.

We launched a new Customer Satisfaction Program with the objective of enhancing our services by obtaining and measuring customer feedback in a systematic manner.

Below we identify our relevant material issues, aligned with our strategy pillars and six SDGs, as well as our material governance parameters that guide and reinforce our actions.

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 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. 	Human and labor rights • fair compensation, working terms and benefits • equal opportunities and non-harassment • inclusion and diversity • health, safety and wellbeing Talent attraction and retention Engagement Training and development
Supply Chain Sustainability Managing risk, furthering compliance, collaborating with the industry and other partners to raise sustainability performance and safeguarding and enhancing the lives of workers and communities along the supply chain are essential to meet the demands of the dynamic global retail sector. Our strategy for supply chain sustainability focuses on three priority areas: human rights, safe workplaces and environmental resilience. 	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 • 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 • traceability • health, safety and quality

Li & Fung Sustainability Strategy pillar and relevant SDGs	Material issues
Engaging our Communities We are driven by our purpose to improve lives along the supply chain and in our communities. We harness our strengths, global networks and knowledge 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.

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. 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.

Employees[1] Worldwide

16,796

Employees Worldwide by Gender

Female **49.6%**

Male **50.4%**

Management Team by Gender

Female **41%**

Male **59%**

Over 2019, a number of organizations recognized our focus on innovation and people development:

1. CTGoodJobs Best HR Awards: Gold for Best Learning & Development
2. Asia Recruitment Awards Hong Kong: Gold for "Best Global Recruitment Strategy" and Silver for "Best Onboarding Experience" and "Best Candidate Experience"
3. HRO Today 2019: Talent Acquisition Team of the Year
4. HR Asia Magazine: "Best Companies to Work for in Asia"
5. Human Resources Magazine's HR Distinction Awards: Gold in "Rising Team of the Year", "Innovative Team of the Year" and "Excellence in HR Strategic Plan" and Silver in "Excellence in HR Digitalization" and "Excellence in Learning & Development"

2019 marks the end of our current Three-Year Plan. We have made progress along our transformational journey to be the industry leader as we create the Supply Chain of the Future and we will continue to enhance our leadership, talent and capabilities to support the realization of this vision. This vision will continue to guide us during the next three years. We also are evolving as a world-class learning organization focused on digital transformation and change management. As an industry leader we need to attract the best and brightest diverse global talent in design, product development, merchandising and account management.

We will continue to focus on creating shared value for our customers, suppliers, colleagues, partners and communities. In support of this, our people strategy focuses us on making progress towards the UN Sustainable Development Goals (SDGs) of Good Health and Wellbeing, Gender Equality and Decent Work and Economic Growth.

[1] 98.5% of our full-time employees are on permanent or other contracts. For the 67% that have full-time, permanent contracts, 46% are female and 54% are male, and for the 33% on full-time, temporary or other contracts, 56% are female and 44% are male. For part-time employees on permanent contracts, 85% are female and 15% are male, and for those on other contracts, 77% are female and 23% are male.

Our Values

Our values form the basis of our culture, business strategies and 114-year old brand. Three core values continue to unite us and guide our actions:

We are entrepreneurs
We are humble
We are family

Our values are meaningful expressions of who we are. They define our behavior with each other, with our customers and suppliers, and with all those we interact with. Through our One Family internal communication platform, we focus on promoting our values and our people continue to share stories, videos and photos on what these values mean to them, and how they integrate them into their lives and work.

We continue to expand our brand beyond our corporate website through LinkedIn, Instagram, YouTube and WeChat. Over 120,000 people follow our LinkedIn page, which represents an increase of 35% over 2018 and, on average, over 24,100 people directly engage with our posts. We have over 2,600 Instagram followers and for WeChat, we have over 11,000 followers with an average engagement of 2,100 per post, which is up 110% from 2018. We continue to enhance 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 Gap

An important part of nurturing diverse talent 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 SDG for Gender Equality. We first reported gender pay gaps for our Company as whole and by employee level in 2017.

In 2019 and based on median annualized salaries across all employee groups[2], men earned 4% more than woman overall, narrower than 7% more in 2018[3]. Among senior and middle management, women earned 5% less than men, compared to 8% less in 2018. For other employees, below middle management, women earned 23% more than men in 2019 compared to 17% more in 2018.

Improvement toward parity in overall gender pay gap

3%

Workforce under the age of 50

90%

Average age of all employees

42

Average length of service

8 years

Retention rate after maternity leave

73%

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

[2] Within Li & Fung generally, senior management comprises employees at Grade 1 and above, middle management at Grade 2 and other employees are Grade 3 or below.

[3] The overall gender pay gap across all employee groups has been restated for 2018 due to a clerical error. Other data for 2018 remains correct.

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 and attracting and developing talent.

Engaging our People

Engaging our people to celebrate and support our inclusive and diverse global workforce, to connect, and to encourage each other to thrive, is a core initiative at Li & Fung. Doing so provides an environment that is entrepreneurial, rewarding and respectful, fostering a long-term commitment to the Company.

Our diversity is a source of strength and pride. Our 16,796 colleagues represent over 50 nationalities inspiring innovation and 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. We proudly promote our Inclusion & Diversity initiative 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) transformed our workplaces to create collaborative and interactive environments, in support of our Three-Year Plan. We created spaces 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 customers. We empowered our people to promote this cultural shift with local WoW Change Committees and Advocates who consult their colleagues on the layout of the spaces and ways to adapt to the open-office environments. In 2019, we transformed offices in Ho Chi Minh and Shanghai, with London and Dhaka under renovation and targeted for completion in the first and second quarters of 2020. This is in addition to previously converted offices in Hong Kong, Jakarta, Qingdao, New Delhi, Seoul and Singapore.

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 in discussions on our business priorities and performance, during 2019 we held 18 meetings involving around 1,000 senior managers and 115 town halls with a cumulative total of over 17,000 colleagues participating in person and over 1,100 more joining by live stream in multiple locations.

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 who have the same interests and passions, or work in the same role. In 2019, over 8,600 colleagues accessed One Family daily and there was a 93% increase in the number accessing it with their mobile device. There were over 11.9 million pageviews and time spent on the platform increased by 3% over 2018. The number of blogposts increased from 273 to 316.

Valuing our people extends to appreciation events and special days for families, which we regularly organize. Each year, we also recognize our peoples' work anniversaries with Li & Fung of between over 5 to 45 years through our Long Service Awards.

Our annual, global employee engagement survey, "Your Opinion Matters" continues to provide insightful feedback. Each year we ask consistent questions related to colleagues' engagement and career development, the actions of our managers and senior leaders and the overall work environment. This enables us to analyze trend variations over the years and we follow up on any areas for improvement.

With an encouraging 72% response rate, the overall results have been favorable, with 71% of respondents expressing they are happy working at Li & Fung. 73% of respondents understand and resonate with the organization's vision and mission and are confident that we are positioned well for the future. Favorable scores for the Company's senior leadership having a sincere and genuine interest in the wellbeing of employees increased by 2%.

Responses indicated areas of strength, including colleagues' and senior management's attitude of genuinely caring about customers and belief in Li & Fung regularly using customer feedback to improve our process and setting clear performance standards for product/service quality. Continued areas of focus include acting on employees' suggestions and ideas and the long-term development of our people. We followed up with our HR business partners and 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 relevant to our employees.

Inclusion & Diversity

As a global business, it is critical to understand, embrace and operate in a multicultural world — both in our workplace and in the supply chain. Launched in July 2017, our global Inclusion and Diversity (I&D) 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.

As Li & Fung continues to learn and evolve on this journey and recognizing that an inclusive workplace is a precondition to furthering diversity, a refreshed campaign emphasizing Inclusion was introduced in 2019 to focus on involving and respecting the differences in people, ideas and cultures.

Some of our highlights in 2019 include:

- A Global Anti-Harassment & Anti-Discrimination Policy was renewed with training for Human Resources (HR) teams and compulsory e-learning modules for all managers and employees (see below for details)
- 31 "I&D Ambassadors" across the world came together to communicate and diligently advance our journey and build our practices of I&D
- Ongoing monthly articles on our intranet, One Family, accompanied by informative videos to foster an environment of learning and open communication about I&D. In 2019, we covered issues such as International Women's Day, Black History Month, Health Awareness, Pride Month and Emotional Wellbeing
- Over 60 workshops on "Unconscious Bias" to open the doors of communication
- Introduced LGBT+ Inclusion workshops with pilot sessions in our Hong Kong, Shanghai and Shenzhen offices
- A three-month Health & Wellbeing campaign was launched to promote health awareness including physical health, emotional and mental wellbeing to our colleagues. Over 45 health and wellbeing events were held across the globe

A refreshed campaign emphasizing inclusion was introduced in 2019 to focus on involving and respecting the differences in people, ideas and cultures.

Enhancing Wellbeing

When our people are happy and healthy and provided with a safe, inclusive workplace, it improves our 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 occupational health and safety requirements for our offices and distribution centers (DCs). To support local needs and meet local legal requirements, 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[4], is of utmost importance. We affirm these commitments in our Code of Conduct and Business Ethics (Code) and our I&D initiative reinforces and supports our people to live these commitments. All new employees learn about the Code during orientation and ongoing training. To strengthen our zero-tolerance approach to violations of our Code related to discrimination and harassment, we introduced a new, global policy as highlighted below.

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 7% of our employees have joined unions. 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 2019, there was one incident of fraud regarding staff advances and claims that was investigated and reported to the local law enforcement authority, and led to the relevant internal control system being further strengthened. For details, refer to "Our Commitment to Good Governance" section.

In 2019, two issues related to employment terms and conditions were raised and resolved through our grievance mechanism in the United Kingdom (UK)[5].

Global Anti-Discrimination and Harassment Policy

Li & Fung is committed to maintaining a workplace free from unlawful and unwanted harassment, be it sexual or other, or discrimination in any form. We strive to provide all employees with a respectful and safe work environment. Accordingly, in 2019, the Company adopted a detailed **global anti-harassment and anti-discrimination policy,** accompanied by specific training for our HR business partners to equip them with the knowledge and skills to handle and report any such cases that may arise and take the right recourse.

As the member of the Fung Group, we are committed to maintaining a workplace free from unlawful and unwanted harassment or discrimination of any form.

[4] 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.

[5] The two issues raised through our grievance mechanism in the UK in 2018 and the one in the United States in 2017, that were previously reported, have since been resolved.

The Business Ethics and Integrity Education Working Group, established in 2017, includes members from Learning & Development (L&D), Legal, Corporate Governance, Digital Learning, HR and business units.

Following the workshops held for senior leaders in 2018, we rolled out a train-the-trainer program, enabling us to bring our "Do the Right Thing" workshop to over 4,000 colleagues of all levels in 25 locations in 2019. With the accompanying e-learning module, we have enabled colleagues to enhance their skills and knowledge for putting our policies into practice. By the end of 2019, 7,367 colleagues completed the digital learning resource, nearly doubling the 4,038 colleagues that were reached in 2018. 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.

Since 2017 the Business Ethics & Integrity Program has reached:

Over **4,000 colleagues** in workshops in

25 Locations

Over **7,300 colleagues** through

digital learning

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 six facilities in Hong Kong and one in Singapore certified to the OHSAS 18001 standard, and two in Mainland China and one in Thailand certified to the ISO 45001 standard. Our DC in Singapore also holds the BizSAFE STAR Certificate from the Singapore Workplace Safety and Health Council and our facility in Thailand was recognized with the "Zero Accident — Silver Award" by Thailand's Institute of Occupational Safety and Health for the fourth consecutive year.

Furthermore, four of our DCs in Hong Kong, Mainland China, Malaysia and Thailand maintain Hazard Analysis Critical Control Points (HACCP) certification. Additional best practice safety and hygiene certifications are held by a number of DCs where relevant, depending on the storage and distribution standards required for particular goods, including for food and medical devices.

Across our operations we conduct risks assessments of transportation routes to plan for safer journeys and 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. We also engage our subcontractors to providing training on safe transport operations, driving and use of PPE. Annual Environmental, Health and Safety Weeks and topical OHS events are also held and vaccinations are provided. In our DCs in Thailand, SMART Material-handling Equipment (MHE) Training is provided and the Safe MHE Driving Program awards colleagues that demonstrate excellence in safety practices with a prize and recognition on notice boards.

In 2019, 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 educate, support and empower our employees to improve and maintain their overall health and wellbeing through healthy lifestyle choices. Our goal is to support the diverse needs of our colleagues through our holistic wellness learning initiative, known as 360 Wellness. The program aims to develop colleagues' mindfulness by addressing physical, spiritual, emotional and mental wellbeing. Colleagues are encouraged to take responsibility for their health through a series of Lunch & Learn sessions that include topics addressing stress management, building resilience, dietary management and relationship building. In 2019, we reached 122 colleagues in over five sessions. We hope to continue this initiative in the coming years by partnering with other teams across the organization to offer more learning opportunities and increasing engagement.

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

Attracting and Developing Talent

In today's fast-changing geopolitical and business environment, we need to have the best talent to drive growth across our global offices. Our senior management recognizes that having a healthy talent pipeline is key to our future success and the stability of the organization.

A Talent Management Taskforce has been formed and an organization-wide global talent management process created that focuses on current and future critical jobs, talent and development needs, and succession planning. Workforce planning also enables us to identify our high potentials early on so we can plan their career path and growth within the organization.

Since 2018, we have been incorporating Artificial Intelligence (AI) as part of our recruitment strategy with the HireFit predictive model improving both the efficiency of the process and the experience for candidates. In 2019, we launched Project Hire Agile Success (HAS), which empowers HR teams to hire the right person with the right tools in a data-driven culture using the Agile approach. Over a span of two and half months, the project delivered ten solutions to address stakeholder feedback, including innovative job descriptions, electronic employer branding leaflets and digitized job application forms. In 2020, we will continue to expand our use of the Agile approach and continuously integrate stakeholder feedback to enhance the recruitment process for all parties. Over the year, we strengthened our presence on LinkedIn, Instagram, Facebook and WeChat to help engage the best local and international talent. We've been using LinkedIn as part of our recruitment strategy since 2015, and in 2019 we received more than 40,000 unique job applications, which is a 40% increase over 2018. In 2019, 1,987 professional staff were newly hired, representing an average new hire rate of 12% across the Company. The main channels for new hires included 27% from internal transfers or referrals, 15% from recruitment agencies, 35% from job postings and 23% from social media, ongoing connections with universities and other channels.

In addition to attracting external talent, retaining existing talent is a priority, particularly within an industry that continues to experience systemic change. In 2019, our voluntary and involuntary turnover rate among professional staff was 15%, which is the same as in 2018 and is equivalent to the APQC Benchmark Industry Target of 15.1% for large, complex, multinational companies. We are proud to share that our retention rate after maternity leave is 73%.

To enhance internal talent and succession pipelines, we continue to encourage transfer opportunities across the Company. As a strategic investment, in 2019, we launched a new International Career Development Scheme in Vietnam to prepare 'merchandising leaders of the future' at all levels through internal mobility opportunities. The scheme identifies and develops potential leaders to benefit from knowledge transfer and upskilling and to diversify their career experiences through international exposure. Since its launch in September, applications for the scheme have

LF Adventure

In welcoming new colleagues into our Li & Fung family we want them to feel a strong sense of belonging. We know that the better the onboarding experience, the greater the impact we will have in effectively engaging our new colleagues and retaining talent. To enhance this experience, we launched 'LF Adventure' a journey guided by a mobile app and complemented with a new buddy system, 'LF Pal,' where new joiners are paired with colleagues who help them integrate into the workplace culture and act as a source of information and guidance.

"I'm excited about this initiative as it is perfectly aligned with our 'People First' strategy. I cannot over emphasize the importance of the onboarding process as I've seen many companies fail to provide this kind of support to new hires," said Wilson Zhu, Chief Operating Officer.

LF Adventure was created to keep our new hires connected, excited and engaged as we set them on the right path towards success from the very beginning of their employment journey here at Li & Fung.

been received from China, Hong Kong, Korea and Guatemala. Those selected for the six to 12-month assignments will enhance their skills and play a vital role in building local capability and enriching the succession pipeline in Vietnam — a critical production market.

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

Performance Management

In 2019, we moved from annual performance reviews for all employees to two semi-annual performance management cycles in July and December. Introducing biannual performance appraisals, was an opportunity for managers and employees to formally review performance and objectives more frequently. The performance management program at Li & Fung allows flexibility for aligning with the needs of the business and it promotes a culture of giving and receiving feedback to encourage real-time discussions about the performance, goals and development of our people. Workday, our world-class human resource information system, allows for more transparency and efficiency for all employees and managers, supporting our initiative to align performance, feedback, personal development and goals with easily accessible information all in one place.

A Culture of Learning

We believe that building a strong culture of learning plays a vital role in the sustainable evolution of our Company. To leverage our people's talents and develop their skills, we provide programs that focus on leadership and building business skills and professional knowledge. Our approach to building our multi-channel range of learning resources is based on a need for flexible, efficient, targeted and effective programming. We therefore use a combination of micro-learning, in person workshops, email quick-tips, webinars, mobile apps and social learning platforms. At the end of 2019, we have amassed a collection of survey responses, best practices, feedback and anecdotal evidence that all speak to the positive impact and improvements we have been able to achieve over the year.

In 2019, we also rolled out Franklin Covey's 7 *Habits of Highly Effective People* program to colleagues in 14 locations with 23, two-day manager workshops followed by managers hosting 31 experience-sharing sessions. The program that allows us to practise the 7 Habits for optimal effectiveness, both in the workplace and personally, was reinforced by a combination of articles, blogs, videos of our own managers sharing their experience and newsletters. On average, participants scored themselves 4.3/5 on their ability to increase effectiveness and implement the 7 Habits . This is a 13% increase from the 3.8/5 reported prior to engaging in the program.

We continued to expand our #ThatsTheIdea program to promote a growth mindset and a problem-solving mentality through the use of a practical, six-step problem solving model. The award-winning board game uses gamification to encourage colleagues to have fun while collaborating on real-life business cases. The result is not just a repository of solutions to common business problems, but also the ability to approach challenges differently and more effectively.

Business Skills/Competencies Development

We must continually broaden our knowledge, enhance our skills and equip colleagues with the tools needed to remain one step ahead in today's disruptive business environment. The L&D team constantly re-evaluates the organization's needs by partnering directly with our business leaders to identify areas of improvement.

We offer ongoing learning programs and apps to enhance communication, presentation and people skills for business. In 2019, we rolled out a series of focused merchandising programs to address specific business needs and concerns, align service standards and key performance indicators (KPIs), share best practices and refine the current merchandising process. Topics included excellence in merchandising, product development, quality management, costing, factory reviews, sample development, planning the production timeline, color management and trend forecasts. Over 300 colleagues in four locations participated in one or more of 16 Merchandising Skills programs.

The need to cultivate young talent into merchandising professionals and leaders was the impetus for developing our Merchandising Trainee program. This 18-month program includes a wide range of activities including corporate training, projects, field trips, mentorships and coaching. The selection of the 13 participants in 2019 was based largely around the HireFit Spotlight Assessment to ensure a good fit. Training commenced during the latter part of 2019 with workshops focused on soft-goods development and costing, quality assurance and product development and delivery. So far, nine courses, comprising 27 hours of training, have been offered. Going forward, each participant will progress through two stages with specific development goals before reaching graduation, at which point they will become qualified Assistant Merchandisers ready to rise up through the organization's ranks.

Employee Development

We recently debuted a comprehensive suite of development planning materials to ensure that our colleagues are leveraging the skills that are necessary to progress and grow throughout their careers. A key component of this program is the Development Planning Toolkit. The toolkit includes a step-by-step development planning guidebook, assorted tools to work through and a tailored development curriculum based upon the 70/20/10 approach[6] to learning. We rolled out a session that covered the key concepts of development planning and the 70/20/10 learning approach, an introduction to our Toolkit, and tips for developing employees.

On average, 5.9 hours of training hours were received per colleague in 2019 through Li & Fung's L&D programs, the Fung Academy and tailored training delivered by our Logistics' business. In total, 98,723 hours of training were recorded through these channels in 2019.

In 2019, a total of 14,370 colleagues received training through Li & Fung's L&D programs, which is equivalent to 86% of Li & Fung total workforce. On average, 4.8 hours of training hours were received per employee through these programs in 2019, with an average of US$279 per full-time employee invested in training and development. The average number of training hours per employee that undertook this training was 4.5 in 2019, which is slightly lower than 4.9 hours in 2018.

For those participating in L&D's training and on average, senior managers attended 3.5 hours of training, middle managers 4.8 hours and other employees 5.3 hours. Close to 300 employees also accessed training via our learning apps, of whom 46% were female and 54% male. In addition, there were around 6,400 page views of our Digital Literacy video series, Adaptability in the Digital Age series and Digital Ambassador website, with over 2.9 million unique views of our Digital Tips.

Details on our training statistics, including by employee group and gender, are available on our website.

Developing Leaders

Developing leaders, at all levels, is a key priority. Focused programs, networking and experiential and on-the-job learning are just some of the ways we foster leadership. In 2019, more than 180, or 40%, of our global management team participated in leadership development training.

Our Motivating Self & Others program was created to provide both our new and experienced managers an opportunity to improve their managerial skills. Participants leave with a better understanding of their motivators and aspirations and enhanced abilities for setting clear expectations, engaging stakeholders to achieve desired outcomes, collaborating, sharing ideas and receiving feedback for continuous improvement. As one participant noted, they left with "self-confidence, focus and strong goals."

We continue to implement our tailored leadership roadmap, with the support of the Fung Academy. The Leading Self, Leading Others (LSLO) leadership program equips senior and mid-level managers with skills to take on the role of people managers. Close to 1,600 of our leaders have now participated in the program, which celebrated its 100th session this year and is consistently rated as 90 to 95% relevant to participants' leadership journey. In 2019, we had 89 participants attending one of the 27 sessions held in Hong Kong, New York and Shanghai. New capacity-building training on Artificial Intelligence and Account Management was added this year, with over 80 colleagues participating. In addition to individual coaching provided by Fung Academy specialists, group and team coaching was introduced. With structured and facilitated sessions, colleagues engaged in

6 This approach assumes that individuals obtain 70% of their knowledge from job-related experiences, 20% from interactions with others, and 10% from formal educational events.

coaching circles to share their views and receive feedback and support on challenging issues or experiences.

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

The Leading Self, Leading Others leadership program, which equips senior and mid-level managers with skills to take on the role of people managers, celebrated its 100th session this year.

Innovation and Experimentation Programs

Advancements in technology are disrupting our industry, creating new opportunities and uncertainties about the future business landscape. Experimentation enables us to explore the future to uncover new value and foster an innovation mindset. In 2019, we implemented a number of initiatives that are fundamentally changing how we collaborate with each other and with our partners along the value chain.

Process Mapping, Strategy and Co-creation Workshops

The Fung Academy designed and facilitated co-creation sessions with Li & Fung and its customers to identify opportunities to enhance cooperation and service delivery. Through collaborative, cross-functional process mapping and redesign workshops, our teams engaged with customers to identify how to enhance communication, clarify roles and responsibilities, optimize planning and sampling stages, and identify process improvements and priority initiatives. KPIs to align our services with customers' strategic objectives were also identified. In one instance, a four-day strategic review and co-creation workshop between our Logistics business and one of its customers helped align the relationship with a common vision and strategy for adopting innovative sustainability and technological solutions.

Explorium

Fung Group's collaboration and innovation hub, Explorium, acts as an interface between Li & Fung's internal business unit champions and external innovators, providing an innovative environment for learning, experimenting and scaling drivers of the future global supply chain, such as new technology and sustainability. With 2,200 community members and 500 monthly visitors spanning multiple industries, Explorium has organized and hosted regular events, hackathons and workshops on sustainability, the circular economy, creating shared value, sustainable packaging, and many other topics, for internal and external stakeholders.

The Kitchen

Established in 2016, The Kitchen is an online crowdsourcing platform enabling colleagues to come together to solve business challenges. In 2019, our Logistics business engaged its warehouse operators to identify solutions to challenges they find in the workplace. From late 2018 to 2019, a total of ten challenges were hosted by The Kitchen with 220 ideas posted. Out of the 14 winning ideas, one of them has since increased productivity by 39%.

Artificial Intelligence (AI) Showcase

The Fung Academy's AI curriculum equips business leaders with the skills, confidence and capability to explore AI in their business. Course participants are guided through a customized AI project blueprint that helps scope and shape their projects. Example projects ranged from the application of Natural Language Processing for the classification of Logistics' delivery orders to the use of predictive analytics for optimizing inventory management and sales forecasting for a key customer in the Mainland China market.

Launch of "Proto" — a first experiment in "Made-to-Measure Apparel"

In 2019, the Fung Academy created "Proto", an experimental consumer brand that, in collaboration with business units and external parties, piloted a new production and business model on a small scale. The first experiment, "Made-to-Measure", tested a direct-to-consumer business model for tailored, made-to-order menswear — a business model for eliminating overproduction and waste in unsold inventory.

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

Our Supply Chain

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

Our Supply Chain

We design, source and deliver a diverse range of products — including apparel, footwear, accessories, furniture and household products — from a network of 10,000 suppliers in over 50 production countries to over 2,000 customers globally.

We believe that long-term relationships with suppliers enhances sustainability performance along the supply chain. While the trade landscape continues to change, we make every effort to place orders with existing factories rather than onboard new ones. In 2019, we sourced from over 6,900 factories with 1,146 factories contributing 80% of the value of goods shipped to our customers. These 1,146 factories represent 17% of our total active factories. We maintain long-term relationships (five years or more) with approximately 45% of our suppliers.

Top Five Sourcing Countries

China

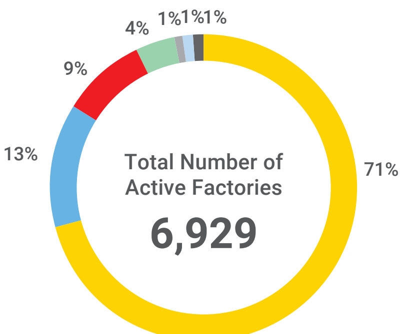
Vietnam

Bangladesh

India

Indonesia

Number and Percentage of Active Factories by Region



China	4,935	71%
South Asia	881	13%
Southeast Asia	649	9%
Europe and Turkey	270	4%
North Asia	83	1%
Americas	65	1%
Others	46	1%

Our Approach

Li & Fung is committed to driving responsible practices across our Company and supply chain. We support our suppliers to continuously improve their performance by providing tools, training and guidance to further safe workplaces, respect for fundamental rights, environmental resilience and a high-level of business transparency and ethics along the supply chain.

The Supply Chain pillar of our Sustainability Strategy has three focus areas: safe workplaces, human rights and environmental resilience.

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

2019 Highlights

Safe Workplaces
191 supplier factories scored 100% on worker safety under the Bangladesh Accord or Alliance

Human Rights
We updated our Supplier Code of Conduct to strengthen provisions on labor and human rights, with more stringent ratings related to environmental compliance

Environmental Resilience
We are one of the largest adopters of the Higg Facility Environmental Module (FEM) with 1,023 suppliers reporting environmental data

Industry Leadership for Change

Li & Fung is a member of several global industry initiatives to further sustainability in the supply chain.

Global Fashion Agenda

Since 2016, Li & Fung has been a Strategic Partner to the Global Fashion Agenda (GFA). We support this leading organization in its mission for the fashion industry to prioritize sustainability. We also contribute supply chain expertise to GFA's thought leadership, including input to the Pulse of the Fashion Industry performance updates, and the CEO Agenda that sets priorities to align the industry towards a more sustainable future. In turn, we leverage these materials to evolve our sustainability strategy. We also support GFA's Policy Engagement work, which advocates for practical, effective policy solutions to accelerate the shift to a circular economy in the EU.

GFA's CEO Agenda outlines the following key sustainability priorities for the fashion industry.

Four core priorities for immediate implementation:

- Supply chain traceability
- Reversing climate change
- Efficient use of water, energy and chemicals
- Respectful and secure work environments

Four transformational priorities for fundamental change:

- Sustainable material mix
- Circular fashion system
- Promotion of better wage systems
- Fourth Industrial Revolution

Li & Fung leaders engage in GFA's annual Copenhagen Fashion Summit, which convenes industry leaders and experts to set bold sustainability goals and drive solutions forward. The 2019 Summit began with a call to action which led to the launch of the Fashion Pact in August 2019.

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The Fashion Pact

As part of the Fung Group, we joined forces with 250 of world's biggest fashion and textile brands to sign The Fashion Pact in August 2019 at the G7 summit. The signatories have committed to improving sustainability standards in the fashion industry by taking action to stop global warming, restore biodiversity and protect the oceans.

Ocean Conservancy Arctic Shipping Pledge

Our Logistics business signed the Arctic Shipping Corporate Pledge in October 2019, launched by Nike and the Ocean Conservancy. As a signatory, we are one of 20 consumer goods and shipping logistics companies that commit to not intentionally ship goods through the Arctic Passage. We are proud to join the global movement to avoid shipping through this environmentally-sensitive route.

We are one of 20 consumer goods and shipping logistics companies to commit to not intentionally ship goods through the Arctic Passage.

Ellen MacArthur Foundation (EMF)

The EMF launched in 2010 with a mission to accelerate the transition to a circular economy. The Fung Group has been part of EMF's Make Fashion Circular initiative since it launched in 2017. The initiative drives collaboration and innovation between industry leaders and other stakeholders to create a new textile economy aligned with the principles of a circular economy — one that ensures clothes are made from safe and renewable materials, new business models increase their use, and old clothes are turned into new.

Managing Risk and Furthering Compliance in our Supply Chain

Structure and Governance

Our Compliance & Sustainability team, which is responsible for overseeing our vendor compliance operations and working with customers to strengthen compliance and sustainability performance, maintains its independence from external and internal stakeholders by reporting to the Group Chief Executive Officer. Further oversight is provided by Fung Group's Vendor Compliance and Sustainability teams, which retain responsibility for governance, policy, internal audit and industry partnerships. Li & Fung's Risk Management and Sustainability Committee, a Board-level committee led by the Honorary Chairman, meets quarterly to review the Company's management of supply chain and other risks and provide recommendations for improvement, and to report on performance to the Board.

The Compliance & Sustainability team has over 30 employees based in 12 markets globally. This team is supported by a business risk and supply chain compliance company, ELEVATE, that executes activities such as equivalency, auditing and remediation (see the 'Monitoring and Due Diligence' section).

Supplier Code of Conduct and Onboarding

Managing supply chain risk starts with Li & Fung's Supplier Code of Conduct (Code). The principles enshrined in the Code are grounded in the UN 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.

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

Rigorous factory onboarding is a crucial step in mitigating risk. We provide regular onboarding training to new factories and our own business units so they understand the key principles of the Code and the consequences of non-compliance.

In 2019, we updated the Code to incorporate emerging requirements, including strengthened standards related to safe workplaces, labor, human rights and environmental resilience. In 2019, new provisions were also added for responsible recruitment in line with ILO general principles and operational guidelines for fair recruitment, as well as more stringent requirements on responsible chemical management and the treatment of hazardous wastewater. To introduce the updated Code, we have so far hosted 51 training sessions in key sourcing countries for colleagues and suppliers, with more planned. The training highlights all key changes, their potential impact and requirements for adherence. To date, 2,487 factories have signed their acceptance of the new Code with a deadline for the remainder by 31 March 2020.

Visit our website to download the Code and detail on our compliance standards, requirements and ratings, and approach to remediation.

Monitoring and Due Diligence

Compliance with the Code is assessed by a designated third-party audit firm. All of our direct suppliers (tier 1) are audited according to a timeline, which varies according to their level of risk. 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. We also rotate the audit firms who conduct our onsite audits to maximize the strengths of each firm and to reduce the risk of collusion with factory management.

Li & Fung accepts audits from twelve recognized social and/or environmental compliance 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. We also accept audit reports from over 140 customer-specific programs.

As part of our assurance program for factories audited against industry and customer standards, Li & Fung and designated third-party audit firms conduct unannounced spot checks, with a particular focus on factories in countries where there are increased risk factors, such as a lack of transparency, presence of vulnerable groups of workers, or factories that are operating under long approval periods based on their compliance rating. Where data from a spot check suggests a critical compliance issue has been systemically missed by an industry standard, we share that information with the industry standard for improvement. In 2019, there were unannounced spot checks in 424 factories across 14 countries.

To further support efforts to reduce duplicative audits, Li & Fung has been involved in the Social & Labor Convergence Program (SLCP) since 2016 and on its Steering Committee since 2017. The SLCP's aim is to implement 'one single assessment for all, more resources and improvements for everyone' through a Converged Assessment Framework (Assessment). In 2019, we introduced the Assessment in several of our Logistics' distribution centers. We also engaged in a joint pilot with ILO Better Work and SLCP in our supply chain in Indonesia that identified improvement opportunities that will be reflected in the next iteration of the Assessment.

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, observable non-compliances when visiting factories and immediately raising them to the Sustainability & Compliance team for action. By the end of 2019, 90% of our QA/QCs have been trained.

Regional and Country Risks

We combine audit data from over 12 different industry standards with spot check and incident data to provide a more accurate picture of risk by country and region. Some of the challenges identified in 2019 are listed below. Our risk and compliance management focuses on proactively identifying non-compliances, capacity building and industry collaboration, as well as remediation to address these challenges.

- Globally, the main zero-tolerance risks in 2019 related to health and safety and transparency and ethics. Many of these issues were identified through unannounced spot checks, which remain a key tool for identifying risk in the supply chain. Zero-tolerance issues are remediated with additional risk-mitigation and capacity-building measures undertaken through our industry partnerships (see the Partnerships and Capacity Building section).

- In China, as observed widely in the industry, there continue to be issues regarding employer payment of social security for workers and payment for overtime that exceeds legal limits. Other issues are related to health and safety, the incorrect use of Personal Protective Equipment (PPE) and chemical management systems that require improvement. China also has a high number of cases of illegal hazardous waste disposal. We regularly review the Institute of Public & Environmental Affairs' (IPE) Blue Map Database to track environmental violations and emission data and as needed require suppliers to take the necessary actions bring their operations into compliance.

- In the Indian Subcontinent, while there have been improvements in aspects of health and safety, many factories continue to be cited for incorrect use of PPE, chemical management systems that need improvement and lack of proper fire certificates.

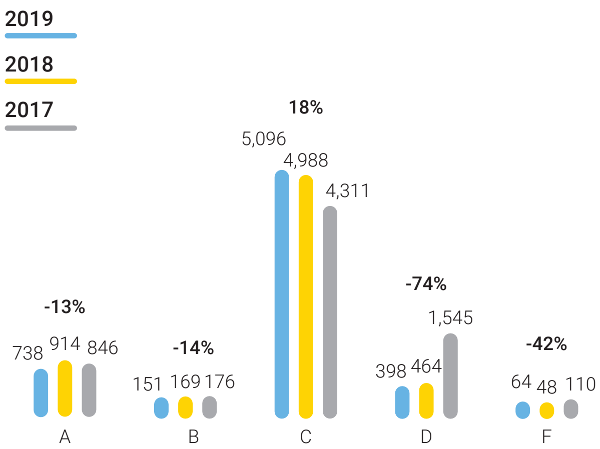
Rating Suppliers

Li & Fung measures factory performance in accordance with our internal rating system. Factory approval is linked to ratings, with higher performing factories approved for longer periods. When non-compliances are identified, this negatively impacts factory approval periods and factories must commit to remediating the issue. For more information on remediation please refer to the section on 'Continuous Improvement'.

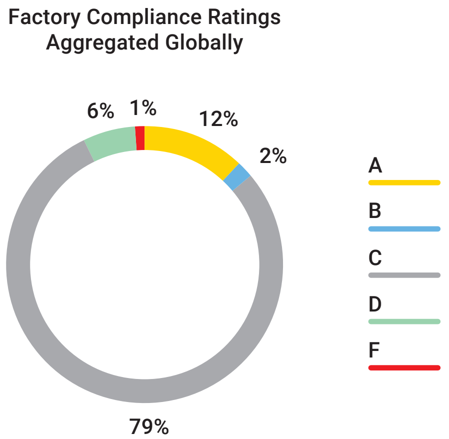
Overall factory ratings in 2019 remained comparable to those in 2018 with C-rated factories remaining stable and D-rated factories decreasing by 14% owing to the remediation program as well as policy restrictions for not onboarding new D-rated factories[1]. The number of A- and B-rated factories decreased with a marginal increase in zero-tolerance findings. This is the result of a rationalization of the supply chain and also an increased number of spot checks on A- and B-rated factories — the latter of which led to a greater percentage of downgrades. In addition, in 2019, we connected our supply base to industry standard platforms, such as amfori BSCI and Sedex, which increased our visibility regarding zero-tolerance findings identified through those platforms and their members. The substantive changes in factory ratings between 2017 and 2019 is a positive result of our strategic factory rationalization, the implementation of our remediation program and our more robust entry requirements for new factories, which has led to the reduction in the number of factories in the D and F categories.

1 The substantive change in D ratings between 2017 and 2018 is attributed to the introduction of our remediation program and the policy restriction for not onboarding new D-rated factories in 2018.

2019/2018/2017 Rating Trends[2] and Change 2019/2017



2019 Rating Distribution



Refer to our website for a definition of Li & Fung's compliance ratings.

Continuous Improvement

Li & Fung continues to engage suppliers to improve performance through a mix of capacity building and remediation and to evolve our remediation to be more in line with international standards, including the UN Guiding Principles on Business and Human Rights.

Non-compliances may be identified through an audit, a spot-check or other sources. As long as there is no immediate threat to workers or other concerned parties, the non-compliance is discussed with the factory representative who then develops a Corrective Action Plan (CAP) with a focus on root cause analysis and prevention. For D- and F-rated issues, we closely monitor and support the factory improvement process and verify remediation. If zero-tolerance issues are not systematically remediated, business is terminated with a responsible exit plan. In 2018, Li & Fung partnered with ELEVATE to execute our remediation program, including CAP follow-up and onsite visits for remediation verification. Throughout 2019, more than 1,300 factories participated, leading to upgrades where sustainable improvements were made or deactivation in cases of insufficient progress.

For non-compliances that involve underage workers, we work in partnership with the Center for Child Rights and Corporate Social Responsibility to develop a responsible solution that is in the best long-term interests of the child. Remediation follows available best practice and will seek to meet the educational, social and economic needs of any child concerned.

Child labor remediation is usually accompanied by in-factory responsible recruitment training for factory management. To date, this program has increased factories' awareness of, and ability to prevent, child labor from occurring. Through this multi-layered approach, we have been able to build sustainable management practices for recruitment. Additionally, we supported CCR CSR's Child Friendly Spaces program in 2019, collaborating with two factories in China that employed a high percentage of migrant worker parents. The project created a childcare room inside the facility and CCR CSR helped to identify and train the childcare providers. The program was a win-win for everyone; parents were able to work knowing their children were in a safe environment, children had the opportunity to their spend summer vacation close to their parents and factory owners noticed that they had a happier and more productive workforce.

2 Rating data has been restated for 2018 and 2017 as data previously included data for Li & Fung's three Product Vertical businesses, Furniture, Beauty and Sweaters. The strategic divestment of these businesses was announced in December 2017 and completed in April 2018.

Grievance Mechanisms

Grievance mechanisms are essential processes that provide access to remedy for workers and a critical component of ensuring factories achieve sustainable improvement. In 2019, we worked towards building more efficient and effective grievance mechanisms in our supply chain through our industry partnerships.

- In Bangladesh, ILO-Better Work organized a two-day workshop in June 2019, which provided factory management participants with the opportunity to develop systems that underpin the resolution of conflict through grievance procedures, while enhancing the capacity of both workers and management to create a culture where workplace issues and conflicts can be addressed.

- In Bangladesh, we continue to work with the Alliance helpline, Amader Kotha, which encourages workers to engage outside help for critical fire and safety risks. In 2019, we responded to five alerts from the hotline either through our remediation program or via partnerships such as Better Work. We also responded to five incidents raised though our ongoing interaction with participants in the Accord.

- In Vietnam, we work with the Life and Building Safety (LABS) Initiative, an industry-driven program to mitigate preventable fire, electrical and structural safety risks. The program includes a safety hotline for workers to report on possible workplace safety risks directly to LABS. While the helpline is primarily intended to focus on workplace safety, we are also alerted of other critical non-safety issues in factories. We take immediate steps to verify and remediate these cases.

Addressing Systemic Issues through Capacity Building

The Li & Fung Sustainability Resource Center is a free, online platform open to all our suppliers and factories, providing them with access to an extensive library of sustainability training, resource materials and toolkits and all our learning videos, which are also publicly available on YouTube[3]. In 2019, the platform had 4,097 hits, 21,320 page views and 1,504 resource downloads.

In 2019, we offered general compliance training, training on our updated Supplier Code of Conduct and training on zero-tolerance issues and other specialized topics for over 2,100 suppliers and over 100 colleagues in 14 different countries.

Compliance Capacity-building Training Sessions in 2019

Hub Location	General Compliance	Updated Supplier Code of Conduct	Training on Rating and Remediation, Zero Tolerance and Critical Issues[4]
Americas	0	3	6
Europe	3	3	3
Hong Kong	0	2	6
China	7	12	6
Indian Subcontinent	31	13	9
Southeast Asia	44	18	13
Total	85	51	43

3 https://www.youtube.com/channel/UcaIV_MGCkl0prY88YhpEaLg
4 Topics included child labor prevention, unauthorized subcontracting and environmental resilience (e.g. Higg FEM, chemical management).

Partnerships and Capacity Building

Safe Workplaces

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

We continue to partner with critical stakeholders to promote workplace safety in Bangladesh. The results achieved by the Accord and Alliance, highlighted below, demonstrate the value of collective action, which has driven measurable improvements in safety through in-depth assessment and remediation of findings, supplemented with worker empowerment and worker safety training programs.

ALLIANCE/NIRAPON

From 2013 to 2018, we engaged closely with the Alliance to conduct detailed engineering inspections in the areas of structural, electrical and fire safety to assess risk at factories in our supply chain and support remediation of issues in alignment with the industry. In addition, via the Alliance, safety training for workers, managers and security guards was provided, as well as a worker helpline.

The Alliance completed its mandate in 2018, with a majority of factories, including 118 in our supply chain, having completed full remediation of critical issues. However, the industry recognized the need to ensure progress would be maintained. In 2019, Nirapon was launched to support the ongoing industry effort to conduct safety monitoring and training of suppliers and oversee helpline activities. As Nirapon members, we support its efforts and look forward to continued collaboration with Nirapon and other stakeholders towards sustainable solutions that ensure worker safety is prioritized.

ACCORD

While the Accord's initial tenure in Bangladesh finished in May 2018, Li & Fung remains committed to the safety of the people who work in our supply chain and continue to offer on-the-ground support to factories in the Accord program. Currently, Accord factories in our supply chain have remediated an average of 93% of findings identified in initial inspections, with 53 factories (33%) achieving 100% remediation. As the Accord is set to transfer all current activities over to the Readymade Sustainability Council (RSC)[5] by June 2020, Li & Fung will maintain close dialogue with all stakeholders as the future of the RSC is clarified.

LIFE AND BUILDING SAFETY (LABS)

We are a founding member and sit on the steering committee of LABS, an industry-driven initiative by multiple brands and retailers to mitigate preventable fire, electrical and structural buildings safety risks in key apparel and footwear producing countries. IDH, The Sustainable Trade Initiative, facilitates the establishment and operational setup of LABS in targeted countries to work towards a harmonized safety standard for apparel and footwear factories.

Since August 2019, we have been supporting IDH's rollout of the program in Vietnam to both mitigate risk and to encourage a safety mindset within factories. It includes an initial safety assessment to identify risk and provide factories with a clear, timebound CAP, and access to a safety hotline. Though the program does not include setting up Occupational Health and Safety (OHS) committees, factories must establish a functioning OHS committee, in compliance with local legislation, in order to graduate from the program. These committees empower worker and employer representatives to identify and solve health and safety problems at the factory together.

Human Rights

Our human rights framework is guided by the UN 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.

5 https://apparelresources.com/business-news/sustainability/readymade-sustainability-council-set-up-in-bangladesh-to-ensure-workers-safety/

In 2019, we advanced human rights in our supply chain through key areas related to social dialogue, gender, worker empowerment and wellbeing, modern slavery, child labor and digital wages. We also publish an annual statement[6] 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.

SOCIAL DIALOGUE PROJECT

In partnership with Just Solutions, we developed the Social Dialogue 2.0 program to strengthen the relationship between factory workers and management through constructive dialogue. Running since 2018 in 20 factories in Bangladesh, it builds on the success of the first version of the program, which yielded a reduction in employee turnover rate to 3.16% from 4.13%, a decline in absenteeism by 8%, and 96% positive feedback from participants.

Training has since been provided to over 700 participants that aims to evolve the dialogue a step further by creating an atmosphere of trust between employees and management. Social Dialogue 2.0 will run through to November 2020 to help ensure the benefits of social dialogue are realized in accordance with the Bangladesh Labor Act and Labor Rules. An impact assessment is planned for March 2020 to review the progress made by the participating factories.

ILO/IFC BETTER WORK

We engage closely with Better Work, a partnership between the ILO and the International Finance Corporation (IFC), to support improved social impact in our supply chain. Better Work offers a comprehensive program for its member factories that includes an in-depth social compliance assessment with regular advisory services to support the sustainable improvement of key findings. Better Work's program engages closely with workers throughout its assessment and advisory process. A total of 192 factories in our supply chain engaged with the Better Work program in 2019.

	Factories Engaged in Better Work's Program	
Country	2019	2018
Bangladesh	26	32
Cambodia	38	21
Egypt	1	0
Haiti	1	1
Indonesia	37	53
Jordan	11	7
Nicaragua	4	3
Vietnam	74	69
Total Factories	**192**	**186**

In addition to assessment and advisory services at a factory level, we participate in Better Work's Building Bridges program. This program acknowledges that factory level engagement and training are important, but that legislative change is also required. The Building Bridges program is designed to support governments to more effectively drive improvement through capacity building and knowledge sharing, as well as facilitate deeper engagement and collaboration between brands, retailers, local governments and other national stakeholders.

Through the Building Bridges program, our team in Vietnam engaged with Vietnamese government officials to share practical insights on effective approaches for proactively identifying and addressing industrial relations risk. Better Work will establish a monitoring system and platform for sharing resources, and new topics for the program will include industrial relations and worker organizations, gender and implementation of the planned, new labor law.

In Nicaragua, our Central America team also engaged with Ministry of Labor and other governmental representatives via the Building Bridges program, with the aim of improving social dialogue in the country's workplaces.

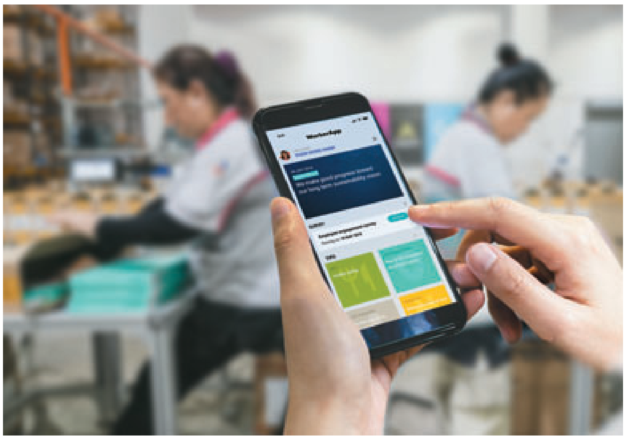
6 https://www.lifung.com/wp-content/uploads/2019/08/LF-Modern-Slavery-Statement-2019-FINAL.pdf

ETHICAL TRADING INITIATIVE (ETI)

ETI is an alliance of companies, trade unions and NGOs working collaboratively through projects, research and advocacy to drive the application of ETI's principles in international supply chains. Headquartered in the UK, ETI is one of the leading multi-stakeholder initiatives operating in the area of human rights at work. Its Base Code is an internationally-recognized set of labor standards founded on the conventions of the ILO. A critical aspect of ETI membership is reporting on progress in implementing the ETI Base Code and principles across our supply chain, so that ETI can monitor our progress over time and ensure continuous improvement. As a new Foundation member of ETI, we submitted our first report in January 2020.

WORKERAPP

The WorkerApp, created by Li & Fung and the Fung Academy and launched in 2018, aims to improve the lives of factory workers through technology. It is a free, digital platform that enables two-way communication between workers and factory management and engages workers through surveys, announcements and educational content about finance, gender, personal hygiene, wellbeing and other topics. It also helps factory management better understand workers' needs and expectations of the work environment so that the factory can improve conditions and ultimately, workers' loyalty and satisfaction. To date, we have successfully launched the LF WorkerApp to 57 factories in four production countries, reaching over 20,800 workers in English, Vietnamese, Bahasa, Hindi, Kannada, Tamil and Bengali.



The app aims to help factory management engage workers through surveys, announcements and educational content on health, safety and productivity topics.

2019 key achievements include:

- Number of average monthly active users in 2019 has increased by 433% over 2018
- Partnered with MasterCard to offer financial literacy lessons to workers using the app, accumulating over 3,000 views in the last 3 months
- Enhanced the app's functionality by adding survey tools and dashboards to allow for enhanced communication between workers and management

ENDING MODERN SLAVERY

Li & Fung supports the Commitment to Responsible Recruitment, spearheaded by the American Apparel and Footwear Association and Fair Labor Association. In response to this commitment, we updated the Li & Fung Supplier Code of Conduct to include a stronger commitment to Responsible Recruitment.

In January 2019, we developed an e-learning training, which shares best practices and case studies on identifying and preventing modern slavery. It was rolled out to all of our apparel and footwear sourcing teams and, as of December 2019, 100% of these colleagues have completed the training. We also partnered with Verité to organize a two-day training for factory staff in Taiwan. A total of 16 factories attended the workshop to learn about the common risks and challenges in third-party recruitment and the employment of foreign migrant workers, and shared experiences and best practices on how to improve visibility and minimize risk in the recruitment process.

In November 2019, as a part of the "Ethical Recruitment as Prevention of Involuntary Work" project, ETI piloted a Learning Map with various resources, as well as its China Recruitment Practice Survey, which are all easily accessible via a smart phone. To date, over 170 of our suppliers have participated and feedback on the training content and approach has been positive:

"The training materials provide great detail on modern slavery, which help us to understand the requirements of relevant regulations and laws as well as expectations of brands," Factory Manager, 2019.

"Learning Map is very well designed. Videos and pictures are more interesting and easier to understand than reading words only", Factory Compliance Officer, 2019.

We will continue to work closely with ETI to scale the pilot, and to develop other effective training approaches to equip factories in our supply chain with hands-on knowledge and toolkits to combat modern slavery.

We updated the Li & Fung Supplier Code of Conduct to include a stronger commitment to responsible recruitment in 2019.

MEKONG CLUB AND APPRISE AUDIT

The Mekong Club mobilizes the private sector to disrupt and end modern slavery. As a member of the Mekong Club's Apparel and Footwear Working Group we leverage the organization's expertise, platform, tools and strategies to improve due diligence and risk assessment, and educate key stakeholders on how to address the root causes of modern slavery. In 2019, Mekong Club and the United Nations University Institute in Macau developed the Apprise Audit tool (Apprise). Apprise is an innovative voice app that enables more workers to be engaged during an audit in a safe, effective and anonymous way. During a typical factory audit, the auditor has limited time to interview workers who may be afraid to speak out, or there may be a language barrier. This is even more challenging in the engagement of migrant workers, who are often more vulnerable and at risk of being trapped in forced labor. Apprise uses a mobile app to ask workers questions in their local language to discover any red flags for forced labor. We provided funding for the Apprise question set to be translated into three local Indian languages and have also tested it in 22 factories in Bangladesh, Malaysia, Thailand and Vietnam.

DIGITAL WAGES

In 2019, we updated our Supplier Code of Conduct to include a provision that suppliers should commit to progressively implementing a digital wage/remuneration policy and system to ensure transparency of wage payments.

We continued to work closely with Business for Social Responsibility (BSR) to roll-out the HERfinance Digital Wages program in Bangladesh with support from the Bill & Melinda Gates Foundation. Since 2015, 64 factories in Bangladesh (nine of which are in our supply chain) have been engaged in the program. As a result, 148,954 workers, with 57 percent of them being female, have adopted digital wages, and more than 100,400 workers, with the majority of them also being women, are being paid via a digital payroll account.

Read more about the digital wages programs, including testimonials from beneficiaries, on our website.

Environmental Resilience

Li & Fung recognizes that the state of our natural environment means that we cannot continue to conduct business as usual. We understand that we all have a responsibility to address our contribution to climate change and environmental degradation and that through working together, our industry will be better equipped to drive the necessary change.

We focus on identifying environmental risk in our supply chain, reducing environmental impact along the supply chain and developing and implementing solutions for improved environmental performance 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, greenhouse gas and air emissions, and climate change related impacts at all levels of the supply chain

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. Examples of our actions are outlined below.

ENVIRONMENTAL ATTRIBUTES IN SOURCING AND THE ADOPTION OF VIRTUAL 3D DESIGN

We are committed to meeting and encouraging customer-requests for sustainably sourced materials and products with reduced environmental impact from well-managed factories.

Virtual 3D 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 processes. In 2019, the Fung Academy and Masters' students from the Hong Kong University of Science and Technology studied the economic, environmental and social impact of 3D design technology for two garments, from initial design to the final sample stage. Results showed that the use of digital sampling reduces the overall lead time by 45%, reduces cost by 69%, and reduces environmental impact by 55% with substantive reductions in GHG emissions and water consumption.

For another customer, our sourcing team undertook an analysis of all the fiber materials sourced for the customer's garments to identify the impacts along its supply chain and alternatives that could be sourced with reduced environmental and/or social impacts. Each material was prioritized based on the results of lifecycle assessments using resources and data available on various low impact fibers through the Textile Exchange, certification schemes such as GOTS[7] and BCI[8], and the Higg Material Sustainability Index.

This work was done in close collaboration with our technical teams to ensure that the sustainable options were viable and met the customers' pricing and quality requirements. Once alternatives were validated and confirmed, education and support on adopting certification schemes and related Standard Operating Procedures were provided to our colleagues, customer and suppliers. This was important as every supply chain actor needed to have a comprehensive understanding of both certification and related legal requirements.

3D virtual design avoids environmental impacts from travel and transportation and reduces wastage from the sampling and product production processes.

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

SUSTAINABLE APPAREL COALITION (SAC)

As a founding member of the SAC, we have been pleased to collaborate with industry leaders towards a more sustainable industry and contribute to the rollout of the Higg Index. We continued to focus on broad adoption of the Higg Environmental Module in 2019, with 1,023 suppliers reporting, recognizing that measuring supply chain environmental impacts at scale via the Higg Index is critical to driving continuous improvement among our supply base. This was achieved with support throughout the organization: business leaders were engaged in the process and were critical partners to communicate our commitment to our suppliers. In addition, the data we collect via the Higg Index continues to improve our understanding of our indirect environmental impacts to support the development of a baseline for our own continuous improvement.

7 Global Organic Textile Standard (GOTS).
8 Better Cotton Initiative (BCI).

ENERGY SENSOR PROGRAM

The Energy Sensor Program, now in its second year, is designed to help suppliers reduce their energy consumption and drive efficiency through. Packages, comprising electricity sensors, a web-based tool and a mobile app, are implemented in factories. Data is then collected to pinpoint how energy can be used more efficiently. After encouraging trials conducted in China and India, Li & Fung is looking to expand the program amongst interested suppliers, which is part of a larger program to build supply chain capabilities around digitization and IoT to further sustainable improvements in factories across the region.

LI & FUNG BETTER CHEMICAL MANAGEMENT PROGRAM

The use of hazardous chemicals in the global textile, apparel and footwear industry affects the health and wellbeing of the people who wear clothing, those who produce it, and the environment. To address this risk, we launched the Better Chemical Management Program (BCM) to monitor, reduce and ultimately eliminate hazardous chemicals in our supply chain. We partnered with sustainability accelerator GoBlu on a pilot program to eliminate key chemicals from wet processing facilities in the supply chains of our private label business.

The program, which was initiated in 2017, focuses on tracking and managing chemical inventories using GoBlu's digital platform, The BHive. The BHive platform allows a facility to efficiently upload its chemical inventory on a mobile device. The platform provides feedback on the risk of these chemicals including whether they meet leading chemical standards such as ECO PASSPORT[9], GOTS, bluesign® and the ZDHC MRSL[10]. This information can be shared with brands and retailers for full visibility into a facility's chemical inventory without the need for testing.

In 2019, the results of the pilot included:

- Chemicals at high risk of containing restricted substances or with no proof of chemical compliance were reduced by 23%

- Chemicals certified/accepted by a leading chemical standard increased by 22%

- Suppliers improved their chemical management practices by implementing recommendations in the areas of chemical management systems, chemical compliance assurance, awareness and knowledge of restricted chemical requirements, sustainability capabilities, and overall environmental management practices

As brands, retailers, end consumers and stakeholders increasingly demand cleaner fashion and reasonable prices, the BCM program enables Li & Fung to build a supply chain that can meet these needs.

The Better Chemical Management Program focuses on tracking and managing chemical inventories using GoBlu's digital platform, providing full visibility on chemical risk to brands and retailers.

9 ECO PASSPORT by OEKO-TEX®.
10 ZDHC (Zero Discharge of Hazardous Chemicals) Manufacturing Restricted Substances List (MRSL).

Our Communities

We engage our people to meaningfully
contribute to our communities,
and support them in making
a positive impact across our global network.

Our Communities

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 active engagement.

We aim to harness our strengths, including our global networks, local knowledge, relationships and over 16,700 people to make a positive impact. 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 (SDGs) of No Poverty, Good Health and Wellbeing, Gender Equality, Decent Work and Economic Growth, and Responsible Consumption and Production.

In 2019, we updated our purpose statement to reflect our commitment to our colleagues, by noting that we are focused on *improving the lives of a billion people along the supply chain,* ***starting with our own***. Reflecting this change, throughout the year we shared personal, practical tips to improve general, mental and physical wellbeing. We believe that when our people are healthier and happier, they are better enabled to make a positive impact in the community.

2019 Community Impact Results

173 activities

People volunteered **5,300+** times

27 locations in **18** countries

16,500+ volunteer hours

10,800+ volunteer hours during working hours

5,600+ volunteer hours during non-working hours

There is a significant difference in our 2019 figures compared with previous years. This is primarily due to the Li & Fung Foundation changing how volunteer hours are recorded to focus on practical, hands-on activities and exclude participation in more general, awareness-raising campaigns and separating out financial and volunteering contributions related to other Fung Group companies.

In 2019, our colleagues spent over 4,800 hours on hands-on activities, such as tree planting and working with children, almost 2,000 hours participating in awareness-raising activities on issues ranging from community health activities to protecting the environment, and almost 10,000 hours for other events, including in-kind donation activities and fundraisers.

Our colleagues generously donated over US$80,000 to support community initiatives, 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$120,000, 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 2019, total support from the Fung Group, via the Fung Hon Chu Foundation and the Li & Fung Foundation, was over US$190,000.

Our aggregated metrics since 2011 include our colleagues volunteering over 120,000 times, and contributing over 226,000 hours to support 2,561 social and environmental initiatives around the world. Since 2011, our colleagues have donated over US$1.9 million to support communities, the Fung (1906) Foundation, the Fung Hon Chu Foundation and the Li & Fung Foundation have provided over US$3.9 million to further support some of these projects, and our corporate donations have totalled over 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.

Our "Make It Green Always" tree-planting initiative in the Chambok community with supplier partners in Cambodia.

Our Approach to Community Engagement

We harness the expertise, interests and time 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 2019, 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 also 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 483 entrepreneurs, 85% of whom are female, across 40 countries. Many of their enterprises are along our supply chain, including in Cambodia, Guatemala, Indonesia, the Philippines and Vietnam.

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 2019, we continued to publish regular community engagement newsletters to highlight how our work relates to global issues and to share stories of how our colleagues create impact around the globe. We also maintained communications with our volunteers through One Family, our internal communications platform, website updates and social media channels.

We continue to use One Family and social media platforms to tell impactful community engagement stories and encourage best practice sharing. Our One Family community engagement blog is the most read blog on the platform with over 32,000 views, and our social media audience continued to grow throughout the year, and now has an audience of almost 1,500 followers.

Each year we work with over 80 community organizations to maximize impact including: 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).

Details of our some of our activities in 2019 are shared below under our four focus areas of Happiness, Environment, Health & Wellbeing and Community.

Happiness

Activities to increase the emotional wellbeing and happiness of participants and beneficiaries include:

- Supporting fun environmental activities in our New York office paired with a Bring Your Child to Work Day

- Hosting a Fun Activity Day with Tribal School Students in Bangladesh, building on a long-term relationship with the school

- Organising Christmas activities in the UK, Hong Kong, the Philippines and South Korea with local community partners to spread festive joy and support those most in need. Beneficiaries included underprivileged children, children in orphanages and those living with disabilities

Environment

To help protect, preserve and restore the local environment in our communities across the world we focused our action on:

- Allocating over 5,100 hours on environmental activities, including collecting waste from coastlines and cityscapes, building firebreaks in national parks and holding workshops to raise awareness about environmental impact as part of our annual "Clean Up Our World" campaign. Since it began in 2012, the campaign has brought together over 18,500 colleagues, friends and family members in support of almost 300 environmentally-beneficial activities

- Continuing momentum from our 2018 RETHINK Challenge, an addition to our well-established Clean Up Our World campaign, we again partnered with 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. This year, colleagues worldwide participated in a campaign to avoid using single-use plastic items in daily life

We supported EcoDrive's "Enough Plastic" campaign to further single-use plastic reduction in Hong Kong.

Health & Wellbeing

Activities that lead to improved health and wellbeing, both physical and mental, included:

- Organizing a four-month Health & Wellbeing campaign in 2019 to bring different topics including fitness and nutrition, mental health, emotional wellbeing and health awareness to colleagues and to highlight the importance of each to their daily life. The campaign also featured a variety of interactive and educational activities, including a panel session on health and wellbeing, slow yoga lessons and professional health consultations, which enabled our colleagues to benefit from learning how to incorporate mindfulness into their lives and to relax and meditate in the workplace

- Donating almost 200 pints of blood and raising awareness for humanitarian needs across our offices from Thailand to Turkey, potentially saving up to 600 lives[1]. In Hong Kong, we supported the Red Cross with our 21st year of blood donations, and were recognized with the Bronze Award of the Give Blood Alliance for our efforts

- Our annual women's and men's health awareness campaigns, Pink Month and Movember, reached colleagues worldwide and resulted in awareness events and fundraising campaigns that were matched by the Li & Fung Foundation. For the sixth year running, Li & Fung was one of the top five Movember fundraisers in Hong Kong

- In Hong Kong, our people led monthly gatherings with refugees and asylum seekers including a series of workshops designed to help participants deal with anxiety and stress, learn evidence-based positive thinking techniques, and address destructive behaviors and habits. Over 100 refugees and asylum seekers joined these sessions in 2019

Community

To support the communities we live and work in, we undertook the following key activities:

- Supporting children's education through donations of basic necessities, such as uniforms and classroom supplies, and by improving schools through hands-on construction, refurbishment and maintenance activities in Bangladesh, Cambodia, China, Pakistan, Turkey and Vietnam

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

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

- Partnering with Cambodian Children's Fund, Captivating International, Christina Noble Children's Foundation, Foster Pride 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 and coaching, and provided financial support globally. In Cambodia and Vietnam, our support also included donating items such as food, books and school supplies

- Fundraising to support those impacted by natural disasters in Bangladesh, Cambodia and Thailand

- Working with our Logistics business to collect and deliver used clothes and donated samples to support Hong Kong community partners including Redress, the Rotary Club of Kowloon Golden Mile, Crossroads and the Christian Action Centre for Refugees

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

Our Footprint

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

Our Footprint

2019 marks the tenth 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 and 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.

In 2019, as part of Fung Group, we signed The Fashion Pact, committing us and 55 other signatories to improving sustainability standards in the fashion industry. The pact was spearheaded by the President of France, Emmanuel Macron, at the G7 summit and calls on signatories to commit to Science-based Targets to reduce greenhouse gas (GHG) emissions and other actions to address our climate emergency, restore biodiversity and protect the oceans. As a Fung Group company, we are part of this important action and are taking substantive action to reduce environmental impact in our own operations and supply chain though GHG measurement and reduction, sourcing items with sustainability attributes and phasing out the use of single-use plastic.

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 2019, we announced that we would phase in changes that would lead to a ban on single-use plastic by 2020. A detailed review was undertaken to identify:

- all the types, quantities, use and frequency of single-use plastic in our operations
- alternatives with reduced environmental impact, ranging from reusable serving ware, cups, glasses and cutlery to non-fossil fuel-based, biodegradable options
- a roadmap for replacing existing stock with preferred alternatives

A global campaign was launched to raise awareness of our global climate and plastic waste crisis, to share tips on how to take action and to inform colleagues of the ban on single-use disposable plastic.

Systems to measure, track and manage our environmental performance have been implemented across our operations with ISO 14001 environmental management system (EMS) standard certifications covering our office in Norderstedt, Germany and six DCs in Hong Kong, four in Taiwan, two in Mainland China and one in Singapore and in Thailand.

In 2019, none of our facilities experienced any non-compliance incidents with applicable legal requirements.

Environmental Awareness

We inspire and support our people to be mindful of how they can reduce environmental impact in their daily lives. Our colleagues share best practices through our internal communications platform, One Family and we feature stories on environmental initiatives, and colleagues generate and share content through a live feed, by commenting on articles, writing and following blogs or sharing videos.

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. Our 'Make Life Better Program' recognizes colleagues who log eight or more volunteering hours. Since 2017, we have funded 483 entrepreneurs, 85% of whom are female, across 40 countries. Many of their enterprises are along the supply chain where we live and work, including in Cambodia, Guatemala, Indonesia, the Philippines and Vietnam.

In 2019, our people spent over 5,100 hours on environmental activities, including collecting waste from coastlines and cityscapes, building firebreaks in national parks, and holding workshops to raise awareness about our environmental impact as part of our annual "Clean Up Our World" campaign, which we have been running since 2012. Since its launch, the campaign has brought together over 18,500 colleagues, friends and family members in support of almost 300 activities.

This year, as part of our ninth campaign and second RETHINK Challenge, we again partnered with Hong Kong-based, non-profit organization, EcoDrive[1], bringing to the fore the issue of single-use plastic and exploring what can be done to address this problem. This year, colleagues worldwide participated in a campaign to avoid using single-use plastic items in daily life. Our colleagues proactively shared photos and stories on One Family to inspire everyone to make these habits part of their daily lives. We also organized a "Lunch & Learn" for our Logistics' colleagues to hear from our Hong Kong environmental, health and safety team and representatives from the Fung Group, HK Recycles[2] and EcoDrive on the importance of sustainability to our Company and to everyone as individuals in the community. A highlight of the Hong Kong event was the screening of 'Start Small, Start Now!' by EcoDrive, a movie on single-use plastic reduction in Hong Kong.

LF Logistics team hosted a Lunch & Learn session to raise sustainability awareness and encourage recycling initiatives in Hong Kong.

1 http://www.ecodrivehk.com/
2 HKRecycles collects recyclables from our buildings in Lai Chi Kok and Sha Tin, Hong Kong,

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 2019, we maintained one Platinum Leadership in Energy and Environmental Design (LEED) certification in New York, a Gold and Silver in Hong Kong, and another Silver in Istanbul. Our office in Paris is located in a BREEAM[3] — 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 2019, we transformed offices in Ho Chi Minh and Shanghai, with London and Dhaka under renovation and targeted for completion in the first and second quarters of 2020. This is in addition to previously converted offices in Hong Kong, Jakarta, Qingdao, New Delhi, Seoul and Singapore. 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 that are low in volatile organic compound emissions and phthalate-free.

In 2020 and as part of our action to support the Fashion Pact, we are reviewing the environmental performance of our buildings and operations to identify opportunities to further reduce our GHG emissions, resource consumption and environmental impact.

Project Wow seeks to minimize environmental impact by reducing renovation work, converting and reusing furniture for modular, multi-purpose working areas and using environmentally-responsible materials.

Resource Management

Our Reporting Scope and Baseline

2019 marks the third and final year of our current Three-Year Plan. Our reporting scope covers over 230 offices and 270 DCs in 2019 with comparative data provided for the year 2018 and our baseline year of 2017. Over these past three years, we have made a concerted effort to capture environmental data more comprehensively across our global business and we have seen a substantive expansion of our Logistics' business. Our 2019 environmental data forms the baseline for 2020 and beyond.

Visit our website for details of our performance in 2019, in comparison to both 2018 and our baseline of 2017, and of our environmental footprint initiatives.

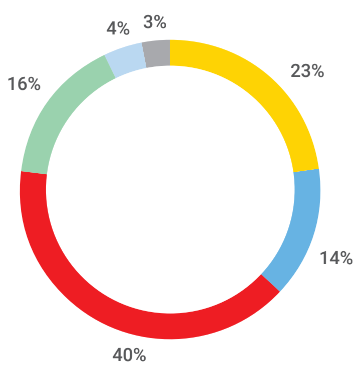
3 Building Research Establishment Environmental Assessment Method.

Responsible Procurement

Our global procurement team leverages our scale in negotiating with our network of 16,000 indirect goods and services suppliers to our operations and assesses performance against our Supplier Code of Conduct.

In 2019, we reviewed our process to identify how we could encourage suppliers to provide items or services with sustainability attributes. We plan to progressively integrate these changes going forward. 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 2019



Hong Kong	3,658	23%
China	2,292	14%
Rest of Asia	6,391	40%
Europe	2,515	16%
America	600	4%
Rest of the World	544	3%

Improving Energy Efficiency and Reducing Emissions

The impact of climate change on the resilience of ecosystems is becoming more pronounced and severe — we are now in a state of climate emergency. Changes in temperature and extreme weather are affecting biodiversity, human health, 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.

We don't operate factories but work in office towers and operate DCs and vehicle fleets, and our energy use and the composition of our GHG and air emissions reflect this. In all of our facilities, systems are in place to monitor consumption and emissions and we met relevant environmental regulatory requirements in 2019.

We calculate our GHG emissions according to international standards, appropriate national and local guidelines and emission factors[4]. 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. As part of our action to support the Fashion Pact, we are working towards measuring Scope 3 GHG emissions and being able to set Science-based Targets. It is critically important to contribute to the solution to our climate crisis, and we are in the process of planning how to best engage

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

with our customers and suppliers to develop a coordinated approach. Our Logistics business joined Green Freight Asia[5] in 2019 to learn from and collaborate with industry peers to adopt logistics' practices with reduced environmental impact, including fuel efficiency and reductions in GHG emissions.

We installed a solar photovoltaic (PV) system on the rooftop of LF Logistics' headquarters, generating 24,017 kWh of electricity to the grid during its first two months of operation in November and December, 2019. In addition, we operate DCs in Japan and Mainland China that have renewable energy installations. In 2019, 40% of the energy consumption at two of these DCs, one in Ping Gu, near Beijing, and the other in Suzhou, comes from their rooftop solar systems. Our Logistics business also became a signatory to the Hong Government's Energy Saving Charter in 2019, reaffirming ongoing commitments to reduce energy consumption, improve efficiency and be transparent in performance monitoring.

LF LOGISTICS' ROOFTOP SOLAR SYSTEM SUPPORTS A BETTER FUTURE WITH RENEWABLE ENERGY

In 2019, LF Logistics formed a 15-year strategic partnership with leading bespoke solar developer and asset management company, NEFIN[6], to set a new benchmark for sustainability. NEFIN has over a decade of expertise in solar development and is currently developing artificial intelligence solutions to monitor and manage renewable energy assets more efficiently and effectively.

This collaboration with NEFIN involves the installation of a solar photovoltaic (PV) system on the rooftop of LF Logistics' headquarters, the LiFung Centre in Shatin, showcasing 336 pieces of shingled modules together with monitoring and control systems. It will produce an estimated 145,000 kWh per annum of electricity to the grid, which will avoid approximately 86.6 tonnes of carbon dioxide equivalent per year that would have been emitted from local energy generation. This is equivalent to planting 4,165 trees a year! This is a big step towards creating a positive environmental impact.

"We are glad to partner with NEFIN on this pilot program," said Jay Lengel, Senior Vice President of Operations Excellence, LF Logistics, "the project echoes our ongoing initiatives in creating a positive environmental impact and furthering our sustainability performance across the supply chain. We look forward to expanding this cutting-edge solar coverage to more of our facilities in Asia."

Our solar PV system contributes to our ongoing initiatives to create positive environmental impact and further sustainability performance across the supply chain.

5 https://www.greenfreightasia.org/
6 http://nefinco.com/en/home-en/

For the forklifts and material handling equipment in DCs at our ten major geographic locations, we have been progressively moving towards using 100% battery-powered equipment. We made good progress with 60% of our DCs fully using battery power, and 40% using between 97-99% battery-powered forklifts. This helps reduce air and GHG emissions and contributes to improved indoor air quality. Our DCs in the Philippines use bio-diesel[7] in their forklifts and onsite gensets.

Other highlights include:

- Progressively retrofitting existing lighting with LED throughout our operations with all renovations and new facilities using only LED. Our DCs in Malaysia and Taiwan have reduced energy consumption between 60% to 70% with LED lighting retrofits
- Adopting infrared sensors as well as lamps that are movable, have acoustic control and/or are solar-powered, as well as time control switches for hot water equipment to reduce energy consumption
- Adopting handheld monitoring devices with rechargeable batteries linked to centralized databases to monitor inventory, reducing paper consumption and improving the efficiency of warehouse operations
- Continuing to expand our use of electric vehicles in our fleet, including a mid-sized electric car and three delivery vans in Hong Kong and over 50 through a third party in Mainland China
- Reducing the impact of shuttle bus services at our Dongguan, Panyu and Shenzhen locations with optimized route planning and 21 third-party operated shuttle buses

In 2019, our electricity consumption and our GHG emissions increased in absolute quantities and intensities over 2018 and our baseline year of 2017. The increases are primarily a result of the substantive expansion of our Logistics' business and an overall increase in both the number of locations entering data into our online environmental management system and the capture of resource consumption data. We did not achieve our Three-Year Plan intensity reduction targets of 10% for both electricity consumption and GHGs emissions, despite ongoing investments in efficient equipment, technologies, systems and vehicular fleets, and initiatives to support behavioral change. In 2019, we undertook an initial review of our offices and DCs to determine which properties to focus on for conducting more detailed reviews to identify opportunities to reduce our environmental footprint.

Visit our website for more examples and details of our 2019 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 and we implement water-efficiency measures including water-efficient faucets, fixtures and fittings, rainwater capture for landscape irrigation and promote behavioral change. While the majority of our facilities do not generate wastewater requiring onsite treatment, our DCs in Mainland China, Malaysia and Thailand met all relevant legal requirements for wastewater discharges.

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 also provide products that comprise materials, including wood, paper, cardboard and/or packaging that are verified to be from FSC[8] or PEFC certified sources.

7 The fuel comprises 95% diesel 5% biodiesel derived from vegetable oil, animal fats and other biomass-derived oils approved by the Department of Environment for use in diesel engines, with quality specifications in accordance with the Philippine National Standards.
8 FSC license number FSC-C016335.

To increase efficiency and reduce paper consumption, our DCs in Thailand use a hands-free voice picking solution that enables colleagues to identify items to be picked in the warehouse using spoken commands. Printed picking lists or remote data terminals are no longer needed and are replaced with wired or wireless Bluetooth headsets.

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. In Singapore, our DC is reducing the use of disposable packaging by reusing metal storage crates. We are using over 5,500 zero-waste, recycled pallets[9] in our DCs in Indonesia and will look to expand their use across our operations. Aligning with circular economy principles, the pallets are made from 100% waste plastic and are designed to be recycled into new pallets at the end of their useful life.

Our DC in Singapore has adopted a mechanical system, which includes a conveyor, chute and compactor, to move and substantively reduce the volume of recyclable materials, requiring fewer resources to handle these materials within our DC and reducing the number of trips required to collect these materials for recycling. Overall, operational productivity efficiency has increased by 5% with annual cost savings of over US$36,000, which represents a two-year payback for the investment.

We ensure that our non-hazardous and hazardous waste is collected by licensed contractors to guarantee safe and proper disposal. In Hong Kong, a total of 1,135 items of electronic equipment, including desktop and laptop computers, monitors and printers, were collected for reuse, recycling and safe processing by a licensed contractor. Our Logistics business also collected 77 kilograms of metal mooncake tins for recycling following the Mid-autumn Festival from Li & Fung offices across Hong Kong.

Voice picking solution in our Logistics' facilities in Thailand reduces paper usage and enhances efficiency.

Following our initiative in 2018 to remove plastic bin liners and personal bins, in 2019, we undertook an in-depth analysis of what would be involved in banning single-use plastic items in our offices. We then began phasing 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. This initiative was widely promoted internally with tips on how to avoid single-use plastic and initially has focused on:

- No longer purchasing items through catering and procurement services with single-use disposable plastic, and not providing water in plastic bottles

- Providing drink and food service with reusable serving ware and crockery

9 https://re-pal.com/

- Proactively engaging with external providers who provide delivery items in reusable or recyclable packaging and prioritizing providers with responsible packaging options on delivery order forms
- Providing disposable options, with reduced environmental impact, only when necessitated by the sheer volume of attendees at large events
- Replacing plastic storage bands and wrap in our DCs with reusable alternatives such as reusable and/or recycled belts, covers and wrap, and engaging suppliers to reuse carton packaging

Over the course of our previous three-year plans, we have achieved absolute and intensity reductions in our consumption of resources. Despite our efforts to consume resources efficiently, our global water consumption increased in 2019, in both absolute quantity and intensity[10]. This is primarily due to the increased capture of consumption data across our global operations and an expansion of our Logistics business.

In 2019, global paper consumption reduced in absolute quantity in comparison to 2018 by 64% due to concerted efforts to encourage paperless operations and to reduce the number of print machines available by locating machines in centralized locations. In Hong Kong, paper volumes reduced by more than 10 tonnes to approximately 27.3 tonnes, which is more than a 27% reduction over 2018. Over our Three-Year Plan we did not meet our intensity reduction target of 5% but we did reduce our absolute paper consumption by 20% in comparison to our 2017 baseline.

Across our global operations we ensure that non-hazardous waste and hazardous waste are sent for proper processing, treatment and disposal, and that materials are collected for recycling wherever possible in local markets. For our Hong Kong operations, we installed weigh scales to more accurately measure our waste generation. In 2019, we reduced our absolute waste generation by 46%, and increased our capture of recyclables by 10%. Going forward, we will continue to enhance our collection system and data capture and to raise awareness of the importance of reducing waste and ensuring recyclable materials are collected properly for recycling.

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

Phasing out single-use plastics in catering and building services is part of our effort to reduce our environmental footprint.

10 Normalized per person based on full-time equivalent employee statistics in 2019.

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
MSCI Global Sustainability Indexes
Hang Seng Corporate Sustainability Benchmark Index

Key Dates

22 Aug 2019 Announcement of the 2019 Interim Results

19 Sep 2019 Payment of 2019 Interim Dividend

20 Mar 2020 Announcement of the 2019 Final Results

6 May 2020 Record Date for the 2020 Annual General Meeting

12 May 2020 Annual General Meeting

Registrar & Transfer Offices

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Share Information

Board lot size: 2,000 Shares

Shares outstanding as at 31 December 2019
8,538,926,906 Shares

Market capitalization as at 31 December 2019
HK$7,258,087,870

Basic earnings per Share for 2019
Interim 0.25 US cents
Full Year 0.20 US cents

Dividend per Share for 2019
Interim 1 HK cent | Final Nil
Total 1 HK cent

Enquiries

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

Shareholders addressed to the Board:
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Websites

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

A Chinese version of this Report can be downloaded from the Company's website and can be obtained from the Company's Hong Kong branch share registrar, Tricor Abacus Limited. In the event of any difference, the English version prevails.
本報告中文版可從本公司網站下載，及向本公司於香港之股份過戶登記分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 2019.

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 45 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 2019, 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 2 to 121. 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 48 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 112 to 121 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 80 to 121.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on pages 143 to 144.

The Directors declared an interim dividend of HK$0.01 (equivalent to US$0.001) per ordinary share, totalling US$11 million which was paid on 19 September 2019.

The Directors do not recommend the payment of final dividend due to the economic uncertainties as a result of the COVID-19 virus outbreak.

Distributable Reserves

At 31 December 2019, the reserves of the Company available for distribution as dividends amounted to US$2,790,944,000, comprising retained earnings of US$2,336,304,000 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; 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$128,000.

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 2019 and for the previous nine financial years are set out in the "Ten-Year Financial Summary" section on pages 244 to 245.

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 2019.

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 2019, there were Share Options relating to 8,000,000 Shares granted by the Company representing 0.09% 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 2019, there were Share Options relating to 27,369,000 Shares granted by the Company representing 0.32% 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 2019 are as follows:

			Number of Share Options			
Grant Date	Exercise Price HK$	Grantees	As at 1/1/2019	Lapsed	As at 31/12/2019	Exercisable period
2003 Option Scheme						
22/12/2011	12.12[1]	Spencer Theodore Fung	5,000,000	(1,000,000)	4,000,000	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
		Marc Robert Compagnon	5,000,000	(1,000,000)	4,000,000	
2014 Option Scheme						
21/5/2015	7.49[2]	William Fung Kwok Lun	5,006,000	(2,503,000)	2,503,000	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
		Spencer Theodore Fung	3,046,000	(1,523,000)	1,523,000	
		Marc Robert Compagnon	2,630,000	(1,315,000)	1,315,000	
		Joseph C. Phi	2,212,000	(1,106,000)	1,106,000	
		Continuous Contract Employees	41,443,000	(21,854,000)	19,589,000	
16/11/2015	5.81[3]	Continuous Contract Employees	889,000	(285,000)	604,000	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	65,955,000	(30,586,000)	35,369,000	

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 25 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 836,039,830 Shares, representing 9.79% 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 70,229,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 22,711,000 Award Shares were awarded to connected persons. 15,177,100 Shares held by the trustee of the Share Award Scheme had been applied to satisfy awards to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 32,340,900 new Shares were allotted and issued by the Company to satisfy awards to non-connected persons and 22,711,000 Award Shares were purchased from the open market to satisfy awards to connected persons pursuant to the terms of the Share Award Scheme and the Scheme Mandate.

As at 31 December 2019, the trustee of the Share Award Scheme held a total of 1,022,100 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 1/1/2019	Granted	Vested	Unvested/ Forfeited*	As at 31/12/2019	Vesting Date
21/5/2015	Spencer Theodore Fung	90,000	–	(90,000)	–	–	Vested on 31 December 2019
	Marc Robert Compagnon	76,600	–	(76,600)	–	–	
	Joseph C. Phi	64,600	–	(64,600)	–	–	
	Connected Persons other than Directors	600,300	–	(600,300)	–	–	
	Non-connected Persons	4,220,700	–	(3,621,900)	(598,800)	–	
16/11/2015	Non-connected Persons	165,200	–	(141,300)	(23,900)	–	Vested on 31 December 2019
19/5/2016	Connected Persons other than Directors	7,300	–	(7,300)	–	–	Vested on 31 December 2019
	Non-connected Persons	266,400	–	(216,300)	(50,100)	–	
14/11/2016	Non-connected Persons	53,700	–	(48,100)	(5,600)	–	Vested on 31 December 2019
13/7/2017	William Fung Kwok Lun	762,000	–	(381,000)	–	381,000	To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020
	Spencer Theodore Fung	762,000	–	(381,000)	–	381,000	
	Marc Robert Compagnon	634,000	–	(317,000)	–	317,000	
	Joseph C. Phi	508,000	–	(254,000)	–	254,000	
	Connected Persons other than Directors	2,984,000	–	(1,492,000)	–	1,492,000	
	Non-connected Persons	32,862,800	–	(14,533,800)	(4,004,000)	14,325,000	
23/3/2018	Spencer Theodore Fung	986,000	–	(493,000)	–	493,000	To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020
	Marc Robert Compagnon	986,000	–	(493,000)	–	493,000	
	Joseph C. Phi	986,000	–	(493,000)	–	493,000	
	Connected Persons other than Directors	1,096,000	–	(548,000)	–	548,000	
	Non-connected Persons	958,000	–	(455,000)	(60,000)	443,000	
23/8/2018	William Fung Kwok Lun	1,181,000	–	(393,800)	–	787,200	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	–	(1,050,000)	–	2,100,000	
	Marc Robert Compagnon	2,953,000	–	(984,400)	–	1,968,600	
	Joseph C. Phi	2,756,000	–	(918,800)	–	1,837,200	
	Connected Persons other than Directors	5,459,000	–	(1,820,000)	–	3,639,000	
	Non-connected Persons	46,074,400	–	(13,331,200)	(6,568,000)	26,175,200	
21/11/2019	Spencer Theodore Fung	–	6,226,000	–	–	6,226,000	To be vested in four tranches with the vesting date on 31 December of each year from 2019 to 2022
	Marc Robert Compagnon	–	6,226,000	–	–	6,226,000	
	Joseph C. Phi	–	6,226,000	–	–	6,226,000	
	Connected Persons other than Directors	–	4,033,000	–	–	4,033,000	
	Non-connected Persons	–	47,518,000	(1,206,400)	(270,000)	46,041,600	
	Total	110,643,000	70,229,000	(44,411,800)	(11,580,400)	124,879,800	

* 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 2019, 12,922,349 Shares are available for grant of awards in the future under the Share Award Scheme, representing approximately 0.15% 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 2019 are set out in Note 45 to the financial statements.

Associated Companies

Details of the Company's principal associated companies at 31 December 2019 are set out in Note 45 to the financial statements.

Joint Venture

Details of the Company's principal joint venture at 31 December 2019 are set out in Note 45 to the financial statements.

Major Customers and Suppliers

During 2019 and 2018, 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 for the Group were 17% (2018: 16%) and 38% (2018: 37%) 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 2019, 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

On 8 August 2019, the Group completed a transaction with an indirect wholly-owned subsidiary of Temasek Holdings Private Limited ("Temasek"), pursuant to which Temasek acquired 21.7% stake in LF Logistics, a wholly-owned subsidiary of the Company before the transaction. On the same day, LF Logistics entered into the following agreements with FH (1937). FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the following agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules, which were subject to reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement:

(a) **Master Logistics Services Agreement:** The Master Logistics Services agreement allows LF Logistics and its subsidiaries to provide logistics and freight forwarding services to FH (1937) and its associates for a term commencing on 8 August 2019 to 31 December 2021 with annual cap for 2019, 2020 and 2021 of US$19 million, US$20 million and US$21 million respectively. The services under the Master Logistics Services Agreement are part of the service provided under the master agreement in (f) except these services are provided by LF Logistics and its subsidiaries. In such respect, the Group recorded logistics and freight forwarding services income of US$3,628,000 for the period from 8 August 2019 to 31 December 2019, which did not exceed the annual cap for 2019 of US$19 million.

(b) **Master Property Agreement:** The Master Property Agreement allows LF Logistics and its subsidiaries to lease office premises from FH (1937) and its associates for a term commencing on 8 August 2019 to 31 December 2021 with annual cap of the total value of right-of-use assets relating to the leases entered with FH(1937) and its associates for each of years ended 31 December 2019, 2020 and 2021 of US$7.05 million. In such respect, the Group did not record the any right-of-use assets as a result of entering into new leases with FH(1937) and its associates for the period from 8 August 2019 to 31 December 2019, which did not exceed the annual cap for 2019 of US$7.05 million.

During the year, the Group also engaged in certain other continuing connected transactions, as set out below, which constituted continuing connected transactions of the Company under the Main Board Listing Rules, and were subject to reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement:

(c) 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$14,961,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$80 million.

(d) The Company entered into a 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 ended on 31 December 2019. In such respect, the aggregate operating lease rental and license fee paid and received approximated US$23,303,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$70 million. On 21 November 2019, the Company entered into in a renewed master lease agreement for the properties leasing or sub-leasing and/or licensing arrangements for a term of three years commencing on 1 January 2020.

(e) 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. For the year ended 31 December 2019, 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$815,693,000. The commission payable to the Group under the buying agency agreement did not exceed the annual cap for 2019 of US$180 million and the cap on commission rate of 7% on the FOB price for all products and components sourced through the Group. The new buying agency agreement with term commencing on 1 April 2020 to 31 March 2023 has been signed on 21 November 2019 between the Group and Global Brands Group. The new buying agency agreement was approved by Global Brands's independent shareholders on 5 March 2020.

(f) 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, including service income disclosed in (a) above, of US$9,415,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$50 million.

(g) On 3 April 2018, the Company entered into 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. LH Pegasus and its subsidiaries are connected persons of the Company after its divestment from the Group on 3 April 2018 and the transactions contemplated under the following agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules:

- **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$24,929,000 for the year ended 31 December 2019, which did not exceed the annual cap for 2019 of US$45 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$4,619,000 for the year ended 31 December 2019, which did not exceed the annual cap for 2019 of US$20 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 year ended 31 December 2019, 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$19,350,000, which did not exceed the annual cap for 2019 of US$45 million.

Non-exempt continuing connected transactions of the Company for the year ended 31 December 2019 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 2019 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 2019 were:

	US$'000
Contributions to the MPF Scheme	136
Contributions forfeited by employees	(55)
Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan	2,037
Contributions pursuant to the statutory requirements in Korea	875
Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand	1,629
Contributions pursuant to statutory requirements in China	33,461
Contributions pursuant to local requirements in other overseas regions	10,286
	48,369

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*

Executive Directors:

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

* Independent Non-executive Directors

All Directors of the Company, including Independent Non-executive Directors, are subject to retirement by rotation at annual general meetings in accordance with Bye-law 110(A) of the Company's Bye-laws.

Spencer Theodore Fung, Allan Wong Chi Yun, Margaret Leung Ko May Yee and Chih Tin Cheung 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 62 to 71.

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

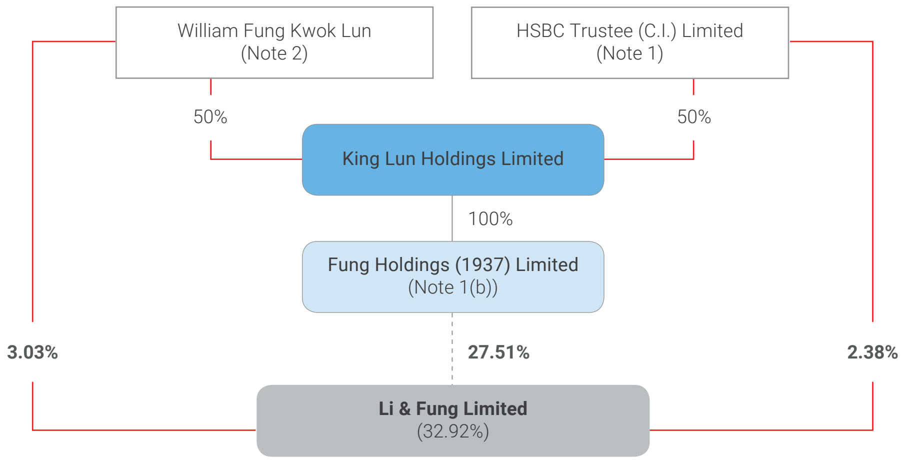
Directors' Interests

As at 31 December 2019, 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 Directors	Personal Interest	Family Interest	Trust/ Corporate Interest	Equity Derivatives (Share Options)	Total	Percentage of Issued Share Capital[7]
Victor Fung Kwok King	2,814,444	–	2,551,966,180[1]	–	2,554,780,624	29.92%
William Fung Kwok Lun	178,276,060	108,800	2,426,530,672[2]	2,503,000[6]	2,607,418,532	30.54%
Spencer Theodore Fung	5,016,000	–	2,561,166,180[1&3]	5,523,000[6]	2,571,705,180	30.12%
Marc Robert Compagnon	4,196,400	14,000	21,294,380[4]	5,315,000[6]	30,819,780	0.36%
Joseph C. Phi	6,359,478	38,000	8,810,200[5]	1,106,000[6]	16,313,678	0.19%
Martin Tang Yue Nien	60,000	–	–	–	60,000	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 2019,

(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. 1,168,200 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 2,561,166,180 Shares, 9,200,000 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 21,294,380 Shares, 9,004,600 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 owned by a trust of which Marc Robert Compagnon is the settlor and a beneficiary.

(5) 8,810,200 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.

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

(7) The approximate percentages were calculated based on 8,538,926,906 shares in issue as at 31 December 2019.

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

As at 31 December 2019, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Share Options and Award Shares

The interests of the Directors and chief executives in the Share Options (being regarded as unlisted physically settled equity derivatives) and 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 2019, 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]	29.89%
King Lun Holdings Limited	Interest of controlled corporation	2,348,953,872[2]	27.51%
Silchester International Investors LLP	Investment manager	857,252,000	10.04%

NOTES:
As at 31 December 2019,

(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 8,538,926,906 shares in issue as at 31 December 2019.

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 2019.

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 62 to 71.

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 38 to 51.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2019, 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.

Proposal for the Privatisation of the Company by the Offeror and Proposed Withdrawal of Listing

Reference is made to the joint announcement issued by the Company and Goldon Lincoln Holdings I Limited (the "Offeror") on 20 March 2020 (the "Announcement"). As disclosed in the Announcement, the Offeror requested the Board to put forward the proposal (the "Proposal") to the Scheme Shareholders (as defined in the Announcement) regarding the proposed privatisation of the Company by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda, involving the cancellation of the Scheme Shares (as defined in the Announcement) and, in consideration thereof, the payment to the Scheme Shareholders (other than the Founder Group (as defined in the Announcement)) of the cancellation price of HK$1.25 in cash for each relevant Scheme Share and the withdrawal of the listing of the Company's Shares on the Stock Exchange, subject to the fulfillment or waiver (as applicable) of certain conditions. For further details and progress of the Proposal, please refer to the Announcement, the scheme document to be despatched which will contain, among others, the expected timetable for the Proposal, as well as any other announcements that may be published by the Company and/or the Offeror. Shareholders and potential investors should be aware that the Proposal is subject to certain conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

On behalf of the Board
William FUNG Kwok Lun
Group Chairman

Hong Kong, 20 March 2020

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Li & Fung Limited (the "Company") and its subsidiaries (the "Group") set out on pages 143 to 243, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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$2,299 million as of 31 December 2019, which relates to goodwill of US$2,151 million, and system development, software, other license costs and other intangible assets of US$148 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 them 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 2019. 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, 20 March 2020

Financial Statements

Notes to the Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Continuing Operations			
Turnover	3	**11,413,312**	12,700,744
Cost of sales		**(10,221,721)**	(11,395,406)
Gross profit		**1,191,591**	1,305,338
Other income		**27,745**	36,556
Total margin		**1,219,336**	1,341,894
Selling and distribution expenses		**(384,973)**	(410,243)
Merchandising and administrative expenses		**(606,816)**	(636,516)
Core operating profit	3	**227,547**	295,135
Gain on remeasurement of contingent consideration payable	4	**621**	8,948
Amortization of other intangible assets	4	**(26,534)**	(29,136)
Non-recurring reorganization costs	4	**(46,825)**	(14,991)
Other non-core operating expenses	4	**(6,491)**	(2,656)
Operating profit	3&4	**148,318**	257,300
Interest income		**11,531**	10,608
Finance costs	5		
Cost on early settlement of long-term notes		**(7,640)**	–
Non-cash interest expenses		**(15,302)**	(15,045)
Cash interest expenses		**(66,844)**	(55,433)
		(89,786)	(70,478)
Share of net (losses)/profits of associated companies and joint venture	15 &16	**(36)**	205
Profit before taxation		**70,027**	197,635
Taxation	6	**(15,756)**	(29,855)
Profit for the year from Continuing Operations		**54,271**	167,780
Discontinued Operations			
Loss for the year from Discontinued Operations	32(a)	**–**	(139,142)
Net profit for the year		**54,271**	28,638

	Note	2019 US$'000	2018 US$'000 (Restated)
Attributable to:			
Shareholders of the Company		**16,748**	(13,308)
Holders of perpetual capital securities		**34,125**	46,125
Non-controlling interests		**3,398**	(4,179)
		54,271	28,638
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**16,748**	122,836
Discontinued Operations	32(a)	**–**	(136,144)
		16,748	(13,308)
Earnings/(losses) per share for profit/(losses) attributable to the Shareholders of the Company during the year	7		
– Basic from Continuing Operations		**1.6 HK cents**	11.4 HK cents
(equivalent to)		**0.20 US cents**	1.47 US cents
– Basic from Discontinued Operations		**N/A**	(12.6) HK cents
(equivalent to)		**N/A**	(1.63) US cents
– Diluted from Continuing Operations		**1.6 HK cents**	11.2 HK cents
(equivalent to)		**0.20 US cents**	1.45 US cents
– Diluted from Discontinued Operations		**N/A**	(12.5) HK cents
(equivalent to)		**N/A**	(1.60) US cents

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Net profit for the year		**54,271**	28,638
Other comprehensive income/(expense):			
Item that will not be reclassified subsequently to profit or loss			
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax		**145**	134
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax		**895**	(2,613)
		1,040	(2,479)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences*		**537**	(17,160)
Net fair value (losses)/gains on cash flow hedges, net of tax		**(3,275)**	4,405
Realization of currency translation differences upon disposal of business		**–**	62,685
Reduction of capital reserves upon disposal of business		**–**	(1,452)
Total items that may be reclassified subsequently to profit or loss		**(2,738)**	48,478
Total other comprehensive (expense)/income for the year, net of tax		**(1,698)**	45,999
Total comprehensive income for the year		**52,573**	74,637
Attributable to:			
Shareholders of the Company		**15,347**	32,698
Holders of perpetual capital securities		**34,125**	46,125
Non-controlling interests		**3,101**	(4,186)
Total comprehensive income for the year		**52,573**	74,637
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**15,347**	153,433
Discontinued Operations	32(a)	**–**	(120,735)
		15,347	32,698

* 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 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December 2019 US$'000	As at 31 December 2018 US$'000 (Restated)	As at 1 January 2018 US$'000 (Restated)
Non-current assets				
Intangible assets	11	**2,298,948**	2,321,294	2,347,011
Property, plant and equipment	12	**195,876**	201,973	187,943
Right-of-use assets	13	**383,802**	391,970	421,027
Prepaid premium for land leases	14	**15**	16	67
Associated companies	15	**6,274**	5,268	12,393
Joint venture	16	**–**	374	996
Available-for-sale financial assets	17	**–**	–	4,338
Financial assets at fair value through other comprehensive income	17	**2,737**	4,601	–
Other receivables, prepayments and deposits	21	**25,421**	26,663	27,738
Deferred tax assets	30	**26,948**	15,644	20,447
		2,940,021	2,967,803	3,021,960
Current assets				
Inventories	18	**156,644**	205,877	147,803
Due from related companies	19	**613,061**	708,862	463,163
Trade and bills receivable	21	**1,017,189**	1,040,236	1,148,560
Other receivables, prepayments and deposits	21	**140,782**	177,436	147,081
Derivative financial instruments	20	**–**	3,985	–
Cash and bank balances	22	**932,167**	612,391	348,940
		2,859,843	2,748,787	2,255,547
Assets classified as held for sale		**–**	–	1,653,520
Current liabilities				
Due to related companies	19	**8,181**	37,809	124
Derivative financial instruments	20	**314**	–	5,355
Bank advances for discounted bills	21	**–**	–	1,724
Trade and bills payable	23	**1,503,684**	1,736,817	1,733,661
Accrued charges and sundry payables	23	**544,015**	585,897	462,322
Taxation		**20,959**	30,267	43,908
Short-term bank loans	24	**4,906**	272,951	22,970
Current portion of long-term notes	28	**374,361**	–	–
Purchase consideration payable for acquisitions	28	**–**	819	42,166
Lease liabilities	28	**117,437**	129,464	122,992
		2,573,857	2,794,024	2,435,222
Liabilities associated with assets classified as held for sale		**–**	–	479,680
Net current assets/(liabilities)		**285,986**	(45,237)	994,165
Total assets less current liabilities		**3,226,007**	2,922,566	4,016,125

	Note	As at 31 December 2019 US$'000	2018 US$'000 (Restated)	As at 1 January 2018 US$'000 (Restated)
Financed by:				
Share capital	25	**13,686**	13,633	13,574
Reserves		**1,250,520**	1,188,662	1,721,106
Shareholders' funds attributable to the Company's Shareholders		**1,264,206**	1,202,295	1,734,680
Holders of perpetual capital securities	27	**655,687**	655,687	1,158,687
Written put option on non-controlling interests		**–**	–	(67,000)
Non-controlling interests		**192,893**	(3,150)	74,262
Total equity		**2,112,786**	1,854,832	2,900,629
Non-current liabilities				
Long-term notes	28	**496,893**	751,405	752,432
Purchase consideration payable for acquisitions	28	**4,823**	8,141	19,417
Lease liabilities	28	**298,265**	291,164	320,921
Long-term bank loan	28	**300,000**	1,034	1,558
Other long-term liabilities	28	**1,612**	2,705	2,764
Post-employment benefit obligations	29	**9,633**	11,592	14,165
Deferred tax liabilities	30	**1,995**	1,693	4,239
		1,113,221	1,067,734	1,115,496
		3,226,007	2,922,566	4,016,125

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2019

	Attributable to Shareholders of the Company							
	Share capital US$'000 (Note 25)	Share premium US$'000	Other reserves US$'000 (Note 26)	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000 (Note 27)	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019, as previously reported	13,633	744,325	53,544	405,390	1,216,892	655,687	(3,150)	1,869,429
Impact of adoption of HKFRS 16	–	–	(198)	(14,399)	(14,597)	–	–	(14,597)
Balance at 1 January 2019, as restated	13,633	744,325	53,346	390,991	1,202,295	655,687	(3,150)	1,854,832
Comprehensive income								
Profit or loss	–	–	–	16,748	16,748	34,125	3,398	54,271
Other comprehensive income/(expense)								
Currency translation differences	–	–	828	–	828	–	(291)	537
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax	–	–	145	–	145	–	–	145
Net fair value losses on cash flow hedges, net of tax	–	–	(3,275)	–	(3,275)	–	–	(3,275)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	901	–	901	–	(6)	895
Total other comprehensive expense, net of tax	–	–	(1,401)	–	(1,401)	–	(297)	(1,698)
Total comprehensive (expense)/income	–	–	(1,401)	16,748	15,347	34,125	3,101	52,573
Transactions with owners in their capacity as owners								
Purchase of shares for Share Award Scheme	–	–	(2,691)	–	(2,691)	–	–	(2,691)
Issuance of shares for Share Award Scheme	53	–	(53)	–	–	–	–	–
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	13,192	–	13,192	–	120	13,312
– vesting of shares for Share Award Scheme	–	16,429	(15,436)	–	993	–	(993)	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(34,125)	–	(34,125)
Transfer to capital reserve	–	–	577	(577)	–	–	–	–
Disposal of financial assets at fair value through other comprehensive income	–	–	(1,350)	(659)	(2,009)	–	–	(2,009)
2018 final dividend paid	–	–	–	(43,848)	(43,848)	–	–	(43,848)
2019 interim dividend paid	–	–	–	(10,962)	(10,962)	–	–	(10,962)
Acquisition of non-controlling interests	–	–	–	(2,513)	(2,513)	–	663	(1,850)
Partial disposal of ownership interests in a subsidiary (Note 33)	–	–	–	94,402	94,402	–	193,152	287,554
Total transactions with owners in their capacity as owners	53	16,429	(5,761)	35,843	46,564	(34,125)	192,942	205,381
Balance at 31 December 2019	13,686	760,754	46,184	443,582	1,264,206	655,687	192,893	2,112,786

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

	Attributable to Shareholders of the Company								
	Share capital US$'000 (Note 25)	Share premium US$'000	Other reserves US$'000 (Note 26)	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000 (Note 27)	Written put option on non-controlling interests US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2018, as previously reported	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Impact of adoption of HKFRS 16	–	–	(994)	(12,072)	(13,066)	–	–	–	(13,066)
Balance at 1 January 2018, as restated	13,574	728,527	508,583	483,996	1,734,680	1,158,687	(67,000)	74,262	2,900,629
Comprehensive (expense)/income									
Profit or loss	–	–	–	(13,308)	(13,308)	46,125	–	(4,179)	28,638
Other comprehensive (expense)/income									
Currency translation differences	–	–	(17,153)	–	(17,153)	–	–	(7)	(17,160)
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, net of tax	–	–	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	–	–	46,006	–	46,006	–	–	(7)	45,999
Total comprehensive income/(expense)	–	–	46,006	(13,308)	32,698	46,125	–	(4,186)	74,637
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	53,346	390,991	1,202,295	655,687	–	(3,150)	1,854,832

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Continuing Operations			
Operating activities			
Net cash generated from operations	31(a)	**317,102**	411,486
Hong Kong profits tax paid, net of refund		**(1,129)**	(3,600)
Overseas taxation paid		**(35,119)**	(39,715)
Net cash inflow from operating activities		**280,854**	368,171
Investing activities			
Purchases of property, plant and equipment		**(48,072)**	(71,793)
Payments for system development, software, license and other intangible assets		**(24,686)**	(34,134)
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		**(3,661)**	(42,889)
Proceeds from disposal of property, plant and equipment and prepaid premium for land leases		**1,981**	2,377
Proceeds from disposal of an associated company		**–**	6,992
Interest income		**11,531**	10,608
Dividends received from associated companies	15	**323**	1,416
Additions of associated companies	15	**(986)**	–
Additions of financial assets at fair value through other comprehensive income	17	**–**	(129)
Net cash (outflow)/inflow from investing activities		**(63,570)**	877,375
Net cash inflow before financing activities		**217,284**	1,245,546
Financing activities			
Interest paid	31(b)	**(66,844)**	(55,433)
Net proceeds from partial disposal of ownership interests in a subsidiary		**287,554**	–
Distributions to holders of perpetual capital securities		**(34,125)**	(49,125)
Drawdown of long-term notes	31(b)	**496,737**	–
Repayment of long-term notes	31(b)	**(383,780)**	–
Dividends paid		**(54,810)**	(574,265)
Payment of lease liabilities	31(b)	**(167,027)**	(157,750)
Purchase of shares for Share Award Scheme		**(2,691)**	(7,577)
Redemption of perpetual capital securities		**–**	(500,000)
Net drawdown of bank loans	31(b)	**30,446**	249,981
Acquisition of non-controlling interests		**(1,850)**	–
Net cash inflow/(outflow) from financing activities		**103,610**	(1,094,169)
Increase in cash and cash equivalents from Continuing Operations		**320,894**	151,377

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

	Note	2019 US$'000	2018 US$'000 (Restated)
Discontinued Operations			
Decrease in cash and cash equivalents from Discontinued Operations	32(f)	**–**	(73,804)
Increase in cash and cash equivalents		**320,894**	77,573
Cash and cash equivalents at 1 January			
Continuing Operations		**612,391**	348,940
Discontinued Operations		**–**	192,578
		612,391	541,518
Increase in cash and cash equivalents		**320,894**	77,573
Effect of foreign exchange rate changes		**(1,118)**	(6,700)
Cash and cash equivalents of Continuing Operations as of 31 December		**932,167**	612,391
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	22	**932,167**	612,391

* 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.

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 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 Group has applied the following new standard, new interpretation and amendments to existing standards for the first time for their annual reporting period commencing 1 January 2019:

HKFRS 16	Leases
HKFRS 9 Amendment	Prepayment Features with Negative Compensation
HKAS 19 Amendment	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Annual Improvement Project	Annual Improvements 2015–2017 Cycle

The application of the above new standard, new interpretation and amendments to existing standards 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 16 "Leases" which the Group had to change its accounting policies as set out in Note 1.22.

HKFRS 16 Leases

HKFRS 16 Leases addresses the classification, measurement and derecognition of right-of-use assets and lease liabilities related to leases which had previously been classified as "operating leases" under the principle of HKAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate.

In accordance with the transition provisions in HKFRS 16, the new rule has been adopted retrospectively and comparative figures have been restated.

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)

HKFRS 16 Leases (continued)

The impacts of the adoption of HKFRS 16 are as follows:

Consolidated Profit and Loss Account

	Year ended 31 December 2018		
	As previously reported	HKFRS16	Restated
	US$'000	US$'000	US$'000
Continuing Operations			
Operating profit	246,887	10,413	257,300
Non-cash interest expenses	(757)	(14,288)	(15,045)
Discontinued Operations			
Loss for the year from Discontinued Operations	(139,797)	655	(139,142)

Consolidated Balance Sheet

	As at 31 December 2018		
	As previously reported	HKFRS16	Restated
	US$'000	US$'000	US$'000
Assets			
Property, plant and equipment	220,264	(18,291)	201,973
Right-of-use assets	–	391,970	391,970
Other receivables, prepayments and deposits	179,549	(2,113)	177,436
Deferred tax assets	11,711	3,933	15,644
Liabilities			
Accrued charges and sundry payables	592,868	(6,971)	585,897
Other long-term liabilities	25,861	(23,156)	2,705
Deferred tax liabilities	2,098	(405)	1,693
Lease liabilities			
— Non-current portion	–	291,164	291,164
— Current portion	–	129,464	129,464
Equity			
Reserves	1,203,259	(14,597)	1,188,662

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)

HKFRS 16 Leases (continued)

The impacts of the adoption of HKFRS 16 are as follows: (continued)

Consolidated Balance Sheet (continued)

	As at 1 January 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Assets			
Property, plant and equipment	208,221	(20,278)	187,943
Right-of-use assets	–	421,027	421,027
Other receivables, prepayments and deposits	150,252	(3,171)	147,081
Deferred tax assets	17,456	2,991	20,447
Assets classified as held for sale	1,641,065	12,455	1,653,520
Liabilities			
Accrued charges and sundry payables	468,089	(5,767)	462,322
Other long-term liabilities	27,476	(24,712)	2,764
Deferred tax liabilities	4,693	(454)	4,239
Liabilities associated with assets classified as held for sale	466,570	13,110	479,680
Lease liabilities			
— Non-current portion	–	320,921	320,921
— Current portion	–	122,992	122,992
Equity			
Reserves	1,734,172	(13,066)	1,721,106

Consolidated Cash Flow Statement

	Year ended 31 December 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Continuing Operations			
Net cash inflow from operating activities	210,421	157,750	368,171
Net cash outflow from financing activities	(936,419)	(157,750)	(1,094,169)

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(B) NEW STANDARD 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 standard and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2020 or later periods, but the Group has not early adopted them:

HKAS 1 and HKAS 8 Amendment	Definition of Material[1]
HKFRS 3 Amendment	Definition of Business[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
HKAS 39, HKFRS 7 and HKFRS 9 Amendment	Hedge accounting[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

NOTES:

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

None of these is expected to have a significant effect on the consolidated financial statements of the Group.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2019.

(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 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 1.6). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies and financial information of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(C) ASSOCIATED COMPANIES

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

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

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

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

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

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

(D) JOINT VENTURE

Under the equity method of accounting, interests in joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in 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 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

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

(B) TRANSACTIONS AND BALANCES

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

Changes in the fair value of monetary securities denominated in foreign currency classified as 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.

(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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation (continued)

(C) GROUP COMPANIES (continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences 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.

(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 Basis of Preparation and Principal Accounting Policies (continued)

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). 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.

(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 Basis of Preparation and Principal Accounting Policies (continued)

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.

1.8 Financial Assets

(I) CLASSIFICATION

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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(III) MEASUREMENT (continued)

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 amortised 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.

- 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

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 and other financial assets carried at amortized cost, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses to be recognized from initial recognition of the receivables. When determining the appropriate level of provision for impairment for individual trade categories, all relevant factors, generally for the Group or specifically for that financial asset category, will be considered. Indicators that there is no reasonable expectation of recovery include, amongst others, debtor insolvency proceedings, the failure of a debtor to make ongoing settlement with the Group, failure to make contractual payments for a period of greater than 365 days past due and failure to agree on a settlement plan. Further detail is set out in Note 38(b).

1 Basis of Preparation and Principal Accounting Policies (continued)

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.

1.13 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 Basis of Preparation and Principal Accounting Policies (continued)

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, finance costs, taxation, material gains or losses which are of capital nature or non-operational related and acquisition related cost. This also excludes gain on remeasurement of contingent consideration payable and amortization of other intangible assets, which are non-cash items, and non-recurring reorganization costs and other non-core operating expenses which are non-operational items.

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 contract 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 Basis of Preparation and Principal Accounting Policies (continued)

1.22 Leases

As explained in Note 1.1(A) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 1.1(A).

Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

- *Assets leased to the Group*

  Leases are initially recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortized on a straight-line basis over the shorter of the asset's useful life and the lease term.

  Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

  – fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
  – payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

  The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

  – the amount of the initial measurement of lease liabilities;
  – any lease payments made at or before the commencement date, less any lease incentive received;
  – any initial direct costs; and
  – restoration costs.

  Payments associated with short-term leases and leases of low-value assets are recognized on a straight line basis as an expense in the consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

- *Assets leased out by the Group*

  A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

  Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are amortized in accordance with the Group's amortization policies.

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 20. Movements in the hedging reserve in shareholders' equity are shown in Note 26. 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.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.27 Financial Guarantee Contract (continued)

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.

1.28 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).

(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.

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 markets 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 its principal-to-principal business.

In 2018, the Group divested the three Product Verticals to further simplify its 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 32 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, finance costs, 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 non-recurring reorganization costs and other non-core operating expenses which are non-operational items. Other information provided to the Group's management is measured in a manner consistent with that in these consolidated financial statements.

3 Segment Information (continued)

	Services US$'000	Products US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2019				
Turnover	**9,999,701**	**1,439,342**	**(25,731)**	**11,413,312**
Total margin	**955,949**	**263,387**		**1,219,336**
Operating costs	**(771,296)**	**(220,493)**		**(991,789)**
Core operating profit	**184,653**	**42,894**		**227,547**
Gain on remeasurement of contingent consideration payable				**621**
Amortization of other intangible assets				**(26,534)**
Non-recurring reorganization costs				**(46,825)**
Other non-core operating expenses				**(6,491)**
Operating profit				**148,318**
Interest income				**11,531**
Finance costs				
Cost on early settlement of long-term notes				**(7,640)**
Non-cash interest expenses				**(15,302)**
Cash interest expenses				**(66,844)**
				(89,786)
Share of net losses of associated companies and joint venture				**(36)**
Profit before taxation				**70,027**
Taxation				**(15,756)**
Net profit for the year				**54,271**
Depreciation and amortization	**213,658**	**33,233**		**246,891**
31 December 2019				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	**2,199,147**	**711,189**		**2,910,336**

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Elimination US$'000	Total US$'000 (Restated)
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	(796,607)	(250,152)		(1,046,759)
Core operating profit	240,385	54,750		295,135
Gain on remeasurement of contingent consideration payable				8,948
Amortization of other intangible assets				(29,136)
Non-recurring reorganization costs				(14,991)
Other non-core operating expenses				(2,656)
Operating profit				257,300
Interest income				10,608
Finance costs				
Non-cash interest expenses				(15,045)
Cash interest expenses				(55,433)
				(70,478)
Share of net profits of associated companies and joint venture				205
Profit before taxation				197,635
Taxation				(29,855)
Profit for the year from Continuing Operations				167,780
Discontinued Operations				
Loss for the year from Discontinued Operations				(139,142)
Net profit for the year				28,638
Depreciation and amortization (Continuing Operations)	203,264	29,842		233,106
31 December 2018				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	2,234,467	713,091		2,947,558

3 Segment Information (continued)

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

	2019 US$'000	2018 US$'000
Turnover		
Supply Chain Solutions	**8,834,482**	9,933,108
Logistics Services	**1,173,277**	1,133,374
Elimination	**(8,058)**	(4,150)
	9,999,701	11,062,332

	2019 US$'000	2018 US$'000 (Restated)
Core operating profit		
Supply Chain Solutions	**90,993**	147,667
Logistics Services	**93,660**	92,718
	184,653	240,385

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 and deferred tax assets) is as follows:

	Turnover		**Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets) As at 31 December**	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000 (Restated)
United States of America	**7,411,183**	8,373,141	**1,037,602**	1,064,356
Europe	**2,005,078**	2,127,475	**686,182**	664,664
Asia	**1,320,107**	1,391,990	**1,093,485**	1,117,447
Rest of the world	**676,944**	808,138	**93,067**	101,091
	11,413,312	12,700,744	**2,910,336**	2,947,558

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:

	2019 **US$'000**	2018 US$'000
Sales of goods of Supply Chain Solutions business	**8,823,111**	9,916,489
Logistics services income	**1,152,363**	1,118,663
Sales of goods of Products Segment	**1,437,838**	1,665,592
	11,413,312	12,700,744

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

	2019 **US$'000**	2018 US$'000
Sales of soft goods	**7,498,039**	8,608,996
Sales of hard goods	**2,762,910**	2,973,085
Logistics services income	**1,152,363**	1,118,663
	11,413,312	12,700,744

For the year ended 31 December 2019, approximately 17% of the total turnover of the Group was derived from one external customer, of which 17% and less than 1% were attributable to Services and Products Segments respectively. For the year ended 31 December 2018, approximately 16% and 11% of the total turnover of the Group's Continuing Operations were derived from two external customers, of which 16% and 11% and less than 1% and less than 1% were attributable to Services and Products Segments respectively.

Segment information for the Discontinued Operations is set out in Note 32(b).

4 Operating Profit From Continuing Operations

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

	2019 US$'000	2018 US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable*	**621**	8,948
Gain on disposals and modifications of right-of-use assets	**591**	180
Net exchange gains	**4,736**	6,838
Charging		
Cost of inventories sold	**10,221,721**	11,395,406
Non-recurring reorganization costs*	**46,825**	14,991
Other non-core operating expenses*	**6,491**	2,656
Depreciation of property, plant and equipment (Note 12)	**50,467**	46,250
Loss on disposal of property, plant and equipment and prepaid premium for land leases	**1,113**	3,663
Loss on disposal of software	**93**	300
Increase in provision for impairment of trade and other receivables, net (Note 21)	**14,135**	37,353
Amortization of system development, software and other license costs (Note 11)	**14,969**	8,247
Amortization of other intangible assets (Note 11)*	**26,534**	29,136
Amortization of prepaid premium for land leases (Note 14)	**1**	1
Amortization of right-of-use assets (Note 13)	**154,920**	149,472
Staff costs including directors' emoluments (Note 9) **	**653,810**	710,939

* Excluded from the core operating profit

** Including staff costs incurred as cost of inventories sold and non-recurring reorganization costs

4 Operating Profit From Continuing Operations (continued)

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

	2019 US$'000	2018 US$'000
Audit services	**2,710**	3,276
Non-audit services		
– taxation services	**1,210**	1,295
– others	**591**	2,099
Total remuneration to auditors charged to consolidated profit and loss account	**4,511**	6,670

NOTE:
Of the above audit and non-audit services fees, US$2,576,000 (2018: US$3,068,000) and US$1,801,000 (2018: US$3,056,000), respectively are payable to the Company's auditor.

5 Finance Costs

	2019 US$'000	2018 US$'000 (Restated)
Cost on early settlement of long-term notes	**7,640**	–
Non-cash interest expenses on purchase consideration payable for acquisitions, long-term notes and lease liabilities	**15,302**	15,045
Cash interest on bank loans, overdrafts and long-term notes	**66,844**	55,433
	89,786	70,478

6 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 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:

	2019 US$'000	2018 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**2,663**	3,850
– Overseas taxation	**31,375**	32,670
Over provision in prior years	**(7,098)**	(6,153)
Deferred taxation (Note 30)	**(11,184)**	(512)
	15,756	29,855

6 Taxation (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:

	2019 **%**	2018 % (Restated)
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(3.4)**	(9.0)
Expenses net of income not subject to taxation	**13.0**	1.3
Over provision in prior years	**(10.1)**	(0.5)
Utilization of previously unrecognized tax losses	**(1.5)**	(0.3)
Unrecognized tax losses	**8.0**	7.1
Effective tax rate	**22.5**	15.1

7 Earnings/(Losses) Per Share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders of US$16,748,000 (2018 (Restated): based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$122,836,000 and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$136,144,000) and on the weighted average number of 8,389,268,000 (2018: 8,369,665,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,389,268,000 (2018: 8,369,665,000) ordinary shares in issue by 120,951,000 (2018: 113,438,000) 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

	2019 **US$'000**	2018 US$'000
Interim, paid, of HK$0.01 (equivalent to US$0.001) (2018: HK$0.03 (equivalent to US$0.004)) per ordinary share	**10,962**	32,886
Final, proposed, of HK$Nil (equivalent to US$Nil) (2018: HK$0.04 (equivalent to US$0.005)) per ordinary share (Note)	**–**	43,848
	10,962	76,734

NOTE:
At a meeting held on 20 March 2020, the Directors do not recommend a final dividend.

9 Staff Costs Including Directors' Emoluments

	2019 US$'000	2018 US$'000
Salaries and bonuses	**559,010**	609,653
Staff benefits	**34,421**	33,663
Pension costs of defined contribution plans (Note (a))	**46,197**	51,903
Employee share option and share award expenses	**12,010**	13,744
Pension costs of defined benefit plans (Note 29(ii))	**1,818**	1,682
Long-service payments	**354**	294
	653,810	710,939

NOTES:

(a) Forfeited contributions totalling US$55,000 (2018: US$48,000) 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$342,536,000 (2018: US$432,694,000), US$96,471,000 (2018: US$116,728,000), US$190,791,000 (2018: US$161,517,000) and US$24,012,000 (2018: Nil) have been expensed in merchandising and administrative expenses, selling and distribution expenses, cost of sales and non-recurring reorganization costs 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 two (2018: four) Directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining three individuals (2018: one individual) during the year are as follows:

	2019 US$'000	2018 US$'000
Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind	**1,888**	809
Discretionary bonuses	**2,282**	378
Contributions to pension scheme	**8**	2
	4,178	1,189

	Number of individuals	
Emolument bands	**2019**	2018
Below US$1,154,000 (Below HK$9,000,000)	**1**	–
US$1,154,000 — US$1,218,000 (HK$9,000,001 — HK$9,500,000)	**–**	1
US$1,218,001 — US$1,283,000 (HK$9,500,001 — HK$10,000,000)	**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.

(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	**2019**	2018
Below US$1,000,000	**7**	7
US$1,000,001 — US$1,500,000	**1**	3
US$1,500,001 — US$2,000,000	**1**	–

11 Intangible Assets

	Goodwill US$'000	System development, software and other license costs US$'000	Other intangible assets: Buying agency agreements US$'000	Other intangible assets: Customer relationships US$'000	Other intangible assets: Patents, trademarks and brandnames US$'000	Other intangible assets: Others US$'000	Total US$'000
At 1 January 2019							
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
Year ended 31 December 2019							
Opening net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
Exchange differences	4,933	(277)	–	267	(37)	–	4,886
Additions	–	24,686	–	–	–	–	24,686
Amortization (Note 4)	–	(14,969)	(9,005)	(13,244)	(3,509)	(776)	(41,503)
Write off	–	(10,322)	–	–	–	–	(10,322)
Disposal	–	(93)	–	–	–	–	(93)
Closing net book amount	2,150,858	49,472	12,407	73,192	5,775	7,244	2,298,948
At 31 December 2019							
Cost	2,150,858	94,521	67,867	195,394	25,249	11,941	2,545,830
Accumulated amortization	–	(45,049)	(55,460)	(122,202)	(19,474)	(4,697)	(246,882)
Net book amount	2,150,858	49,472	12,407	73,192	5,775	7,244	2,298,948

11 Intangible Assets (continued)

	Goodwill US$'000	System development, software and other license costs US$'000	Other intangible assets: Buying agency agreements US$'000	Other intangible assets: Customer relationships US$'000	Other intangible assets: Patents, trademarks and brandnames US$'000	Other intangible assets: Others US$'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

Amortization of system development, software and other license costs for the Continuing Operations of US$9,500,000 (2018: US$5,945,000) and US$5,469,000 (2018: US$2,302,000) 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	
	2019 **US$'000**	2018 US$'000
Services	**1,531,258**	1,529,817
Products	**619,600**	616,108
	2,150,858	2,145,925

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 2019 (Restated)						
Cost	969	158,892	102,508	99,848	2,712	364,929
Accumulated depreciation	(21)	(100,450)	(37,164)	(24,110)	(1,211)	(162,956)
Net book amount	948	58,442	65,344	75,738	1,501	201,973
Year ended 31 December 2019						
Opening net book amount, as previously reported	948	58,442	65,344	94,029	1,501	220,264
Impact of adoption of HKFRS 16	–	–	–	(18,291)	–	(18,291)
Opening net book amount, as restated	948	58,442	65,344	75,738	1,501	201,973
Exchange differences	(19)	(3)	(280)	(287)	(19)	(608)
Additions	–	6,420	20,021	20,289	1,342	48,072
Disposals	(797)	(1,692)	(526)	–	(79)	(3,094)
Depreciation (Note 4)	(27)	(15,403)	(19,159)	(15,001)	(877)	(50,467)
Closing net book amount	105	47,764	65,400	80,739	1,868	195,876
At 31 December 2019						
Cost	451	158,956	113,961	115,182	2,389	390,939
Accumulated depreciation	(346)	(111,192)	(48,561)	(34,443)	(521)	(195,063)
Net book amount	105	47,764	65,400	80,739	1,868	195,876

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 2018 (Restated)						
Cost	1,214	154,940	102,129	81,731	4,394	344,408
Accumulated depreciation	(16)	(99,891)	(35,679)	(19,202)	(1,677)	(156,465)
Net book amount	1,198	55,049	66,450	62,529	2,717	187,943
Year ended 31 December 2018 (Restated)						
Opening net book amount, as previously reported	1,198	55,049	66,450	82,807	2,717	208,221
Impact of adoption of HKFRS 16	–	–	–	(20,278)	–	(20,278)
Opening net book amount, as restated	1,198	55,049	66,450	62,529	2,717	187,943
Continuing Operations						
Exchange differences	(57)	(1,611)	(2,457)	(1,372)	(25)	(5,522)
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)	(11,897)	(1,142)	(46,250)
Closing net book amount	948	58,442	65,344	75,738	1,501	201,973
At 31 December 2018 (Restated)						
Cost	969	158,892	102,508	99,848	2,712	364,929
Accumulated depreciation	(21)	(100,450)	(37,164)	(24,110)	(1,211)	(162,956)
Net book amount	948	58,442	65,344	75,738	1,501	201,973

Depreciation for the Continuing Operations of US$23,469,000 (2018: US$21,900,000), US$26,998,000 (2018: US$24,343,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses respectively. No depreciation has been expensed in cost of sales (2018: US$7,000).

At 31 December 2019 and 2018, the Group had no land and buildings pledged as security for bank borrowings.

13 Right-of-use Assets

	Land and buildings US$'000	Equipment and others US$'000	Total US$'000
At 1 January 2019			
Cost	**722,780**	**13,135**	**735,915**
Accumulated amortization	**(338,484)**	**(5,461)**	**(343,945)**
Net book amount	**384,296**	**7,674**	**391,970**
Year ended 31 December 2019			
Opening net book amount	**384,296**	**7,674**	**391,970**
Exchange differences	**2,193**	**239**	**2,432**
Additions	**153,650**	**4,176**	**157,826**
Disposals and modifications	**(13,473)**	**(33)**	**(13,506)**
Amortization (Note 4)	**(150,809)**	**(4,111)**	**(154,920)**
Closing net book amount	**375,857**	**7,945**	**383,802**
At 31 December 2019			
Cost	**743,377**	**17,236**	**760,613**
Accumulated amortization	**(367,520)**	**(9,291)**	**(376,811)**
Net book amount	**375,857**	**7,945**	**383,802**
At 1 January 2018			
Cost	705,949	13,578	719,527
Accumulated amortization	(292,882)	(5,618)	(298,500)
Net book amount	413,067	7,960	421,027
Year ended 31 December 2018			
Opening net book amount	413,067	7,960	421,027
Exchange differences	(10,540)	(91)	(10,631)
Additions	131,792	4,503	136,295
Disposals and modifications	(5,053)	(196)	(5,249)
Amortization (Note 4)	(144,970)	(4,502)	(149,472)
Closing net book amount	384,296	7,674	391,970
At 31 December 2018			
Cost	722,780	13,135	735,915
Accumulated amortization	(338,484)	(5,461)	(343,945)
Net book amount	384,296	7,674	391,970

14 Prepaid Premium for Land Leases

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value is analyzed as follows:

	2019 US$'000	2018 US$'000
Beginning of the year	**16**	67
Disposals	**–**	(49)
Amortization (Note 4)	**(1)**	(1)
Exchange differences	**–**	(1)
End of the year	**15**	16

Amortization of US$1,000 (2018: US$1,000) has been expensed in selling and distribution expenses.

15 Associated Companies

	2019 US$'000	2018 US$'000
Beginning of the year	**5,268**	12,393
Share of net profits of associated companies	**338**	873
Additions	**986**	–
Disposals	**–**	(6,992)
Dividends received	**(323)**	(1,416)
Exchange differences	**5**	410
Total interests in associated companies	**6,274**	5,268

Details of principal associated companies are set out in Note 45.

16 Joint Venture

	2019 US$'000	2018 US$'000
Beginning of the year	**374**	996
Share of loss of the joint venture	**(374)**	(668)
Exchange differences	**–**	46
Total interest in the joint venture	**–**	374

Details of the joint venture is set out in Note 45.

17 Financial Assets at Fair Value Through Other Comprehensive Income

	2019 US$'000	2018 US$'000
Reclassified from available-for-sale financial assets upon adoption of HKFRS 9	–	4,338
Beginning of the year	4,601	–
Additions	–	129
Disposal	(2,009)	–
Fair value gains, net of tax (Note 26)	145	134
End of the year	2,737	4,601

Financial assets at fair value through other comprehensive income are club debentures (Note 40) and denominated in HK dollar.

18 Inventories

	2019 US$'000	2018 US$'000
Finished goods	151,174	200,486
Raw materials	5,470	5,391
	156,644	205,877

19 Due from/(to) Related Companies

	2019 US$'000	2018 US$'000
Trade		
Due from:		
Associated companies	57	58
Other related companies (Note (a)&(b))	539,876	633,697
	539,933	633,755
Non-trade (Note (c))		
Due from:		
Associated companies	–	342
Other related companies	73,128	74,765
	73,128	75,107
	613,061	708,862
Due to:		
Other related companies	(8,181)	(37,809)

19 Due from/(to) Related Companies (continued)

NOTES:

(a) Taking into consideration of and the continuous settlements received every month and the absence of track record of defaults, management consider there is no indication on the overdue amount due from related companies are unrecoverable, management has considered that no provision is required as of 31 December 2019.

The ageing of the trade amount due from other related companies based on due date is as follows:

	2019 US$'000	2018 US$'000
Not yet due to 90 days	**250,537**	537,691
91 to 180 days	**147,946**	80,826
181 to 365 days	**141,393**	15,180
	539,876	633,697

(b) As at 31 December 2018, 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.

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

20 Derivative Financial Instruments

	2019 US$'000	2018 US$'000
Foreign exchange forward contracts		
– (liabilities)/assets	**(314)**	3,985

Gain in equity of US$1,356,000 (2018: US$4,631,000) on foreign exchange forward contracts as of 31 December 2019 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 26).

For the years ended 31 December 2019 and 2018, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

21 Trade and Other Receivables

	2019 US$'000	2018 US$'000 (Restated)
Trade and bills receivable — net	**1,017,189**	1,040,236
Other receivables, prepayments and deposits	**166,203**	204,099
	1,183,392	1,244,335
Less: non-current portion other receivables, prepayments and deposits	**(25,421)**	(26,663)
	1,157,971	1,217,672

21 Trade and Other Receivables (continued)

The fair values of the Group's trade and other receivables were approximately the same as their carrying values as at 31 December 2019.

A 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:

	2019 US$'000	2018 US$'000
Up to 90 days	**918,412**	905,138
91 to 180 days	**77,014**	97,862
181 to 360 days	**12,485**	18,625
Over 360 days	**9,278**	18,611
	1,017,189	1,040,236

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.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Lifetime expected losses are determined based on track records of settlements, taking into account payment arrangements, such as standby letters of credit, bank guarantees, credit insurance covered, back-to-back arrangement with suppliers.

As of 31 December 2019, trade receivables of US$991,834,000 (31 December 2018: US$1,003,693,000) that were not yet due or less than 90 days past due were not considered unrecoverable. Trade receivables of US$25,355,000 (31 December 2018: 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. Therefore, the lifetime expected losses ratios applied by the Group are considered an appropriate indication of the credit risks associated with trade receivables.

The ageing of these trade receivables is as follows:

	2019 US$'000	2018 US$'000
Not yet due to 90 days	**991,834**	1,003,693
91 to 180 days	**5,351**	10,474
Over 180 days	**20,004**	26,069
	1,017,189	1,040,236

21 Trade and Other Receivables (continued)

As of 31 December 2019, outstanding trade receivables of US$11,317,000 (31 December 2018: US$49,040,000) and other receivables of US$533,000 (31 December 2018: US$2,240,000) were considered impaired and were fully provided for.

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

	2019 US$'000	2018 US$'000
As at 1 January	**51,280**	15,080
Increase in provision for impairment (Note 4)	**15,023**	37,508
Receivables written off	**(53,725)**	(814)
Reversal of provision for impairment (Note 4)	**(888)**	(155)
Exchange difference	**160**	(339)
As at 31 December	**11,850**	51,280

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.

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

	2019 US$'000	2018 US$'000 (Restated)
US dollar	**815,732**	780,099
HK dollar	**26,329**	99,841
Euro	**54,560**	75,562
Pound sterling	**11,924**	15,085
Renminbi	**95,042**	100,252
Philippine Peso	**38,538**	43,814
Thailand Baht	**23,706**	22,800
Others	**92,140**	80,219
	1,157,971	1,217,672

The Group has recognized return assets in relation to expected refunds from customers amounting to US$7,659,000 (31 December 2018: US$9,248,000).

22 Cash and Cash Equivalents

	2019 US$'000	2018 US$'000
Cash and bank balances	**932,167**	612,391

The effective interest rate at the balance sheet date on bank balances was 1.1% (2018: 0.9%) per annum; these deposits have an average maturity period of 6 days (2018: 4 days).

23 Trade and Other Payables

	2019 US$'000	2018 US$'000 (Restated)
Trade and bills payable	**1,503,684**	1,736,817
Accrued charges and sundry payables	**544,015**	585,897
	2,047,699	2,322,714

The fair values of the Group's trade and other payables were approximately the same as their carrying values as at 31 December 2019.

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

	2019 US$'000	2018 US$'000
Up to 90 days	**1,395,884**	1,592,934
91 to 180 days	**94,597**	109,264
181 to 360 days	**7,236**	18,072
Over 360 days	**5,967**	16,547
	1,503,684	1,736,817

The Group has recognized revenue related refund liabilities amounting to US$31,462,000 (31 December 2018: US$48,242,000) and has not recognized revenue related contract liabilities as at 31 December 2019 (31 December 2018: US$16,722,000).

24 Bank Borrowings

	2019 US$'000	2018 US$'000
Long-term bank loan		
— Unsecured (Note 28)	**300,000**	1,034
Short-term bank loans		
— Unsecured	**4,906**	272,951
Total bank borrowings	**304,906**	273,985

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2019.

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

	2019		2018			
	INR	**USD**	PHP	IDR	USD	Others
Long-term bank loan	**–**	**2.6%**	–	–	–	10.0%
Short-term bank loans	**8.5%**	**–**	5.8%	8.6%	3.0%	5.1%

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

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

	2019 US$'000	2018 US$'000
US dollar	**300,000**	250,000
Philippine Peso	**–**	12,427
Indonesian Rupiah	**–**	6,141
Others	**4,906**	5,417
	304,906	273,985

25 Share Capital, Share Options and Award Shares

	No. of shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
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
At 1 January 2019, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 31 December 2019, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
Issued and fully paid			
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 [1]	36,630	458	59
At 31 December 2018, ordinary shares of HK$0.0125 each	8,506,586	106,332	13,633
At 1 January 2019, ordinary shares of HK$0.0125 each	8,506,586	106,332	13,633
Issue of new Shares of HK$0.0125 each pursuant to Share Award Scheme [2]	32,341	404	53
At 31 December 2019, ordinary shares of HK$0.0125 each	8,538,927	106,736	13,686

NOTES:

(1) The closing market price per Share on the date of issue of new share on 23 August 2018 was HK$2.51 per Share.

(2) The closing market price per Share on the date of issue of new share on 21 November 2019 was HK$0.86 per Share.

25 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 2019 are as follows:

			Number of Share Options		
Grant Date	**Exercise Price HK$**	**Exercisable period**	**As at 1/1/2019**	**Lapsed**	**As at 31/12/2019**
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	1/1/2017–31/12/2018	27,093,000	(27,093,000)	–
21/5/2015	7.49	1/1/2018–31/12/2019	27,244,000	(1,208,000)	26,036,000
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	(285,000)	–
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	604,000
19/05/2016	4.27	1/1/2018–31/12/2019	604,000	–	604,000
13/07/2017	2.86	1/1/2018–31/12/2019	125,000	–	125,000
		Total	65,955,000	(30,586,000)	35,369,000

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 2019, no shares have been allotted and issued under the Share Option Schemes.

The Share Options outstanding at 31 December 2019 had a weighted average remaining contractual life of 0.41 years (2018: 0.79 years).

25 Share Capital, Share Options and Award Shares (continued)

Employee share option expenses charged to the consolidated profit and loss account are determined using the Black-Scholes valuation model based on the following assumptions:

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

NOTE:

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

25 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 2019 are as follows:

			Number of Award Shares				
Grant Date	Fair Value per Share HK$	Vesting Date	As at 1/1/2019	Granted	Vested	Unvested/ forfeited	As at 31/12/2019
21/5/2015	7.49	31/12/2019	5,052,200	–	(4,453,400)[2]	(598,800)	–
16/11/2015	5.33	31/12/2019	165,200	–	(141,300)[2]	(23,900)	–
19/5/2016	4.27	31/12/2019	273,700	–	(223,600)[2]	(50,100)	–
14/11/2016	3.53	31/12/2019	53,700	–	(48,100)[2]	(5,600)	–
13/7/2017	2.83	31/12/2019	19,261,800	–	(17,259,800)[2]	(2,002,000)	–
13/7/2017	2.83	31/12/2020	19,251,000	–	(99,000)[2]	(2,002,000)	17,150,000
23/3/2018	3.87	31/12/2019	2,506,000	–	(2,476,000)[2]	(30,000)	–
23/3/2018	3.87	31/12/2020	2,506,000	–	(6,000)[2]	(30,000)	2,470,000
23/8/2018	2.51	31/12/2019	20,581,600	–	(18,383,000)[2]	(2,198,600)	–
23/8/2018	2.51	31/12/2020	20,501,500	–	(57,600)[2]	(2,184,700)	18,259,200
23/8/2018	2.51	31/12/2021	20,490,300	–	(57,600)[2]	(2,184,700)	18,248,000
21/11/2019	0.86	31/12/2019	–	1,206,400	(1,206,400)	–	–
21/11/2019	0.86	31/12/2020	–	23,415,600	–	(90,000)	23,325,600
21/11/2019	0.86	31/12/2021	–	23,404,900	–	(90,000)	23,314,900
21/11/2019	0.86	31/12/2022	–	22,202,100	–	(90,000)	22,112,100
		Total	110,643,000	70,229,000	(44,411,800)	(11,580,400)	124,879,800

NOTES:

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

(2) The vesting of certain Award Shares has been accelerated which was approved by the Remuneration Committee on 21 November 2019.

During the year, a total of 70,229,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 22,711,000 Award Shares were awarded to connected persons.15,177,100 Shares held by the trustee of the Share Award Scheme had been applied to satisfy awards to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 32,340,900 new Shares were allotted and issued by the Company to satisfy awards to non-connected persons and 22,711,000 Award Shares were purchased from the open market to satisfy awards to connected persons pursuant to the terms of the Share Award Scheme.

26 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 2019 as previously reported	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(207,821)	53,544
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(198)	(198)
Balance at 1 January 2019, as restated	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(208,019)	53,346
Other comprehensive income/(expense)									
Currency translation differences	–	–	–	–	–	–	–	828	828
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax (Note 17)	–	–	–	–	145	–	–	–	145
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(3,275)	–	–	(3,275)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	–	–	–	–	901	–	901
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(2,691)	–	–	–	–	–	–	–	(2,691)
Issuance of shares for Share Award Scheme	(53)	–	–	–	–	–	–	–	(53)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	13,192	–	–	–	–	13,192
– vesting of shares for Share Award Scheme	1,897	–	–	(17,333)	–	–	–	–	(15,436)
Transfer to capital reserve	–	577	–	–	–	–	–	–	577
Disposal of financial assets at fair value through other comprehensive income	–	–	–	–	(1,350)	–	–	–	(1,350)
Balance at 31 December 2019	(16,596)	31,752	190,451	59,980	2,258	1,356	(15,826)	(207,191)	46,184

26 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 2018 as previously reported	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(994)	(994)
Balance at 1 January 2018, as restated	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(253,551)	508,583
Other comprehensive (expense)/income									
Currency translation differences	–	–	–	–	–	–	–	(17,153)	(17,153)
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, net of tax (Note 17)	–	–	–	–	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)	(208,019)	53,346

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 shares issued and purchased for Share Award Scheme held by the escrow agent.

27 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 2019 and 2018 included the accrued distribution payments.

28 Long-term Liabilities

	2019 US$'000	2018 US$'000 (Restated)
Long-term bank loan — unsecured (Note 24)	**300,000**	1,034
Long-term notes — unsecured	**871,254**	751,405
Purchase consideration payable for acquisitions	**4,823**	8,960
Lease liabilities	**415,702**	420,628
Other long-term liabilities	**1,612**	2,705
	1,593,391	1,184,732
Current portion of purchase consideration payable for acquisitions	**–**	(819)
Current portion of lease liabilities	**(117,437)**	(129,464)
Current portion of long-term notes	**(374,361)**	–
	1,101,593	1,054,449

Unsecured long-term notes issued to independent third parties in 2010 of US$374,361,000 will mature in 2020 and bear annual coupon of 5.25%. In 2019, the Group issued unsecured long-term notes of US$496,893,000 to independent third parties, which will mature in 2024 and bear annual coupon of 4.375%.

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 2019 amounted to US$4,823,000 (2018: US$8,960,000), of which US$2,557,000 (2018: US$6,758,000) was primarily earn-out and US$2,266,000 (2018: US$2,202,000) 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 40.

28 Long-term Liabilities (continued)

The maturity of financial liabilities is as follows:

	2019 US$'000	2018 US$'000 (Restated)
Within 1 year	**491,798**	130,283
Between 1 and 2 years	**314,079**	837,182
Between 2 and 5 years	**732,974**	139,110
Wholly repayable within 5 years	**1,538,851**	1,106,575
Over 5 years	**54,540**	78,157
	1,593,391	1,184,732

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

	2019 US$'000	2018 US$'000 (Restated)
Long-term bank loan — unsecured	**300,000**	1,034
Long-term notes — unsecured	**889,644**	761,213
Purchase consideration payable for acquisitions	**4,823**	8,141
Lease liabilities	**415,702**	420,628
Other long-term liabilities	**1,612**	2,705
	1,611,781	1,193,721

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

	2019 US$'000	2018 US$'000 (Restated)
US dollar	**1,197,156**	786,951
Renminbi	**77,642**	99,508
Singapore dollar	**75,323**	83,818
HK dollar	**44,225**	56,238
Taiwan dollar	**25,920**	30,593
Thailand Baht	**26,334**	30,102
Korean Won	**33,843**	23,709
Philippine Peso	**15,973**	21,005
Pound sterling	**24,134**	15,885
Japanese Yen	**30,612**	4,632
Others	**42,229**	32,291
	1,593,391	1,184,732

29 Post-employment Benefit Obligations

	2019 US$'000	2018 US$'000
Pension obligations (Note)	**7,953**	10,503
Long-service payment liabilities	**1,680**	1,089
	9,633	11,592

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

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

	2019 US$'000	2018 US$'000
Present value of funded obligations	**33,213**	34,336
Fair value of plan assets	**(25,260)**	(23,833)
Net liabilities in the consolidated balance sheet	**7,953**	10,503

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

	2019 US$'000	2018 US$'000
Current service cost	**1,310**	1,341
Past service cost and losses on settlements	**238**	9
Administrative expenses	**127**	82
Net interest expense	**143**	250
Total, included in staff costs (Note 9)	**1,818**	1,682

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

	2019 US$'000	2018 US$'000
At 1 January	**23,833**	28,801
Interest income	**522**	502
Exchange differences	**676**	(1,167)
Administrative expenses	**(127)**	(82)
Contributions	**1,251**	1,952
Benefits paid	**(2,275)**	(5,157)
Actuarial gains/(losses) on plan assets	**1,380**	(1,016)
At 31 December	**25,260**	23,833

29 Post-employment Benefit Obligations (continued)

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

	2019 US$'000	2018 US$'000
At 1 January	**34,336**	41,978
Current service cost	**1,310**	1,341
Interest cost	**665**	752
Past service cost and losses on settlements	**238**	9
Actuarial gains from changes in experiences	**(2,421)**	(372)
Actuarial losses/(gains) from changes in financial assumptions	**1,063**	(733)
Actuarial losses/(gains) from changes in demographic assumptions	**788**	(2)
Exchange differences	**970**	(1,749)
Benefits paid	**(3,736)**	(6,888)
At 31 December	**33,213**	34,336

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

	2019 US$'000	2018 US$'000
At 1 January	**10,503**	13,177
Exchange differences	**294**	(582)
Total expense charged in the consolidated profit and loss account	**1,818**	1,682
Remeasurement gains recognized in other comprehensive income	**(1,950)**	(91)
Contributions paid	**(1,251)**	(1,952)
Benefits paid	**(1,461)**	(1,731)
At 31 December	**7,953**	10,503

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

	2019 %	2018 %
Discount rate	**0.6–7.7**	0.9–8.1
Salary growth rate	**2.3–9.0**	2.4–8.0
Pension growth rate	**3.3–5.0**	2.4–6.0

29 Post-employment Benefit Obligations (continued)

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

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

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**±0.25%**	**-2.87%**	**+3.03%**

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

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

(vii) Plan assets comprised:

	2019 US$'000	2018 US$'000
Quoted assets		
Cash and cash equivalents	**9,083**	9,549
Equity instruments		
European	**2,316**	2,330
American	**687**	516
Asian	**716**	909
Global	**172**	44
Debt instruments		
Government securities	**6,677**	5,453
Other securities and debt instruments	**4,379**	3,864
Investment funds		
Unit investment trust funds	**678**	557
Investment bond funds	**447**	438
Mutual funds	**–**	19
Others	**105**	154
	25,260	23,833

The weighted average duration of the defined benefit obligation ranges from 6.0 to 21.0 years.

29 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

At 31 December 2019	Within 10 years US$'000	Between 10-20 years US$'000	Beyond 20 years US$'000
Expected benefit payments	**18,187**	**20,923**	**55,159**

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.

30 Deferred Taxation

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

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

	2019 US$'000	2018 US$'000 (Restated)
At 1 January	**(13,951)**	(16,208)
Charged to consolidated profit and loss account (Note 6)	**(11,184)**	(512)
Charged to other comprehensive income	**558**	192
(Credited)/charged to hedging reserve	**(1,007)**	2,013
Exchange differences	**631**	564
At 31 December	**(24,953)**	(13,951)

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US$279,795,000 (2018: US$263,299,000) to carry forward against future taxable income, out of which US$1,483,000 will expire during 2020-2030. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

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

	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
Deferred tax assets	**2019 US$'000**	2018 US$'000	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Balance at 1 January, as previously reported	**5,623**	11,064	**790**	1,214	**19,091**	18,465	**8,247**	6,741	**33,751**	37,484
Impact of adoption of HKFRS 16	**–**	–	**–**	–	**–**	–	**3,933**	2,991	**3,933**	2,991
Balance at 1 January, as restated	**5,623**	11,064	**790**	1,214	**19,091**	18,465	**12,180**	9,732	**37,684**	40,475
Credited/(charged) to consolidated profit and loss account	**1,605**	(4,962)	**1,503**	(337)	**5,891**	832	**(1,762)**	2,563	**7,237**	(1,904)
Credited/(charged) to other comprehensive income	**–**	–	**–**	–	**–**	–	**1,647**	(192)	**1,647**	(192)
Exchange differences	**308**	(479)	**(10)**	(87)	**(72)**	(206)	**(802)**	77	**(576)**	(695)
At 31 December	**7,536**	5,623	**2,283**	790	**24,910**	19,091	**11,263**	12,180	**45,992**	37,684

30 Deferred Taxation (continued)

Deferred tax liabilities	Accelerated tax depreciation allowances 2019 US$'000	Accelerated tax depreciation allowances 2018 US$'000	Intangible assets arising from business combinations 2019 US$'000	Intangible assets arising from business combinations 2018 US$'000	Others 2019 US$'000	Others 2018 US$'000	Total 2019 US$'000	Total 2018 US$'000
Balance at 1 January, as previously reported	**7,716**	6,854	**14,332**	17,288	**2,090**	579	**24,138**	24,721
Impact of adoption of HKFRS 16	**–**	–	**–**	–	**(405)**	(454)	**(405)**	(454)
Balance at 1 January, as restated	**7,716**	6,854	**14,332**	17,288	**1,685**	125	**23,733**	24,267
(Credited)/charged to consolidated profit and loss account	**(291)**	718	**(1,343)**	(2,685)	**(2,313)**	(449)	**(3,947)**	(2,416)
Charged to hedging reserve	**–**	–	**–**	–	**1,198**	2,013	**1,198**	2,013
Exchange differences	**42**	144	**121**	(271)	**(108)**	(4)	**55**	(131)
At 31 December	**7,467**	7,716	**13,110**	14,332	**462**	1,685	**21,039**	23,733

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

	2019 US$'000	2018 US$'000 (Restated)
Deferred tax assets	**26,948**	15,644
Deferred tax liabilities	**(1,995)**	(1,693)
	24,953	13,951

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

	2019 US$'000	2018 US$'000 (Restated)
Deferred tax assets to be recovered after more than 12 months	**23,799**	12,301
Deferred tax assets to be recovered within 12 months	**3,149**	3,343
Deferred tax liabilities to be settled after more than 12 months	**1,136**	726
Deferred tax liabilities to be settled within 12 months	**859**	967

31 Notes to The Consolidated Cash Flow Statement

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

	2019 US$'000	2018 US$'000 (Restated)
Profit before taxation	**70,027**	197,635
Interest income	**(11,531)**	(10,608)
Finance costs	**89,786**	70,478
Depreciation	**50,467**	46,250
Amortization of system development, software and other license costs	**14,969**	8,247
Amortization of other intangible assets	**26,534**	29,136
Amortization of prepaid premium for land leases	**1**	1
Amortization of right-of-use assets	**154,920**	149,472
Share of net losses/(profits) of associated companies and joint venture	**36**	(205)
Employee share option and share award expenses	**12,010**	13,744
Net loss on disposal of property, plant and equipment and prepaid premium for land leases	**1,113**	3,663
Intangible assets written off on reorganization	**10,322**	–
Loss on disposal of software	**93**	300
Gain on disposals and modifications of right-of-use assets	**(591)**	(180)
Gain on remeasurement of contingent consideration payable	**(621)**	(8,948)
Operating profit before working capital changes	**417,535**	498,985
Decrease/(increase) in inventories	**49,233**	(58,074)
Decrease/(increase) in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	**157,621**	(184,433)
(Decrease)/increase in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	**(307,287)**	155,008
Net cash generated from operations	**317,102**	411,486

31 Notes to The Consolidated Cash Flow Statement (continued)

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

	2019				2018			
	Share capital and share premium US$'000 (Note 25 & 41(a))	Bank loans US$'000	Lease liabilities US$'000	Long-terms notes US$'000	Share capital and share premium US$'000 (Note 25 & 41(a))	Bank loans US$'000	Lease liabilities US$'000	Long-terms notes US$'000
At 1 January	757,958	273,985	420,628	751,405	742,101	24,528	443,913	752,432
Non-cash movement:								
Additions of lease liabilities	-	-	157,826	-	–	–	136,295	–
Issuance of shares for Share Award Scheme	53	-	-	-	59	–	–	–
Vesting of shares for Share Award Scheme	16,429	-	-	-	15,798	–	–	–
Non-cash interest	-	-	15,645	(748)	–	–	15,055	(1,027)
Exchange difference and other non-cash movements	-	475	(11,370)	7,640	–	(524)	(16,885)	–
	774,440	274,460	582,729	758,297	757,958	24,004	578,378	751,405
Net drawdown of bank loans	-	30,446	-	-	–	249,981	–	–
Drawdown of long-term notes	-	-	-	496,737	–	–	–	–
Repayment of long-term notes	-	-	-	(383,780)	–	–	–	–
Payment of lease liabilities	-	-	(167,027)	-	–	–	(157,750)	–
Accrued interest	-	27,258	-	39,586	–	15,698	–	39,735
Interest paid	-	(27,258)	-	(39,586)	–	(15,698)	–	(39,735)
At 31 December	774,440	304,906	415,702	871,254	757,958	273,985	420,628	751,405

32 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 Accounts as follows:

	2018 US$'000 (Restated)
Turnover	382,235
Cost of sales	(298,146)
Gross profit	84,089
Selling and distribution expenses	(27,294)
Merchandising and administrative expenses	(78,391)
Core operating loss	(21,596)
Amortization of other intangible assets	(3,682)
Operating loss	(25,278)
Interest income	157
Interest expenses	(1,068)
Loss before taxation	(26,189)
Taxation	825
Loss after taxation	(25,364)
Loss on disposal of business and others (Note 32(e))	(113,778)
Loss for the year	(139,142)
Attributable to:	
Shareholders of the three Product Verticals	(136,144)
Non-controlling interest	(2,998)
	(139,142)

32 Discontinued Operations (continued)

(a) Results of the Discontinued Operations have been included in the Consolidated Profit and Loss Accounts as follows: (continued)

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	2018 US$'000 (Restated)
Loss for the year	(139,142)
Other comprehensive income:	
Items that may be reclassified subsequently to profit or loss	
Currency translation differences	15,409
Total items that may be reclassified subsequently to profit or loss	15,409
Total other comprehensive income for the year, net of tax	15,409
Total comprehensive expense for the year	(123,733)
Attributable to:	
Shareholders of the three Product Verticals	(120,735)
Non-controlling interest	(2,998)
	(123,733)

(b) Geographical analysis of turnover of the Discontinued Operations

For the year ended 31 December 2018, turnover consists of sales to United States of America of US$186,326,000, Europe of US$105,993,000, Asia of US$65,608,000 and Rest of the world US$24,308,000.

32 Discontinued Operations (continued)

(c) Operating profit of the Discontinued Operations

Operating profit of the Discontinued Operations is stated after charging the following:

	2018 US$'000 (Restated)
Cost of inventories sold	298,146
Amortization of system development, software and other license costs	515
Amortization of other intangible assets (excluded from the core operating profit)	3,682
Depreciation of property, plant and equipment	3,251
Amortization of right-of-use assets	2,366
Increase in provision for impairment of trade and other receivables	693
Staff costs	36,906

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

	2018 US$'000 (Restated)
Intangible assets	1,632,176
Property, plant and equipment	40,394
Right-of-use assets	12,455
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)
Lease liabilities	(13,110)
Other current liabilities	(16,112)
Other non-current liabilities	(92,410)
	1,765,714
Remeasurement loss recognized in previous year	(592,363)
	1,173,351
Less: Non-controlling interest	(6,226)
Net assets disposed	1,167,125

32 Discontinued Operations (continued)

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

	2018 US$'000 (Restated)
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 business	(95,073)
Less: Net assets disposed	(1,167,125)
Exchange reserve and others	(80,406)
Loss on disposal of business	(113,778)

(f) An analysis of the cash flow of the Discontinued Operations is as follows:

	2018 US$'000 (Restated)
Net cash outflow from operating activities	(64,055)
Net cash outflow from investing activities	(3,981)
Net cash outflow from financing activities*	(5,768)
Total cash flow	(73,804)

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

(g) Related party transactions

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

	2018 US$'000
Distribution and sales of goods	16

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.

33 Transaction 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.

On 8 August 2019, the Group completed a transaction with an indirect wholly-owned subsidiary of Temasek Holdings Private Limited ("Temasek"), pursuant to which Temasek acquired 21.7% interest of LF Logistics, a wholly-owned subsidiary of the Company before the transaction, through subscription of new shares issued by LF Logistics. The transaction does not result in loss of control by the Group in LF Logistics and therefore it has been accounted for as transactions with equity owners of the Group. The resulting gains on disposal to non-controlling interests has been recorded in equity.

34 Contingent Liabilities

	2019 **US$'000**	2018 US$'000
Guarantees in respect of banking facilities granted to:		
Associated companies	**–**	750

35 Capital Commitments

	2019 **US$'000**	2018 US$'000
Contracted but not provided for:		
Property, plant and equipment	**1,301**	14,248
System development, software and other license costs	**820**	2,756
	2,121	17,004

36 Charges on Assets

There were no charges on the assets and undertakings of the Group as at 31 December 2019 and 2018.

37 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 2019 and 2018:

	Note	**2019 US$'000**	2018 US$'000 (Restated)
Distribution and sales of goods	(i)	**14,961**	19,479
Operating leases rental and license fee received	(ii)	**5,300**	4,393
Sourcing and supply chain management services income	(iii)	**815,693**	1,363,013
Logistics related services income	(iv)	**9,415**	16,725
Service fee received	(v)	**24,929**	20,500
Rental income	(vi)	**4,614**	2,327
Ancillary sourcing and logistics income	(vii)	**2,552**	3,940
Underlying FOB value of ordered products	(vii)	**68,701**	49,479
Office administrative expenses reimbursement	(viii)	**–**	27,167
Office administrative expenses paid	(ix)	**56,268**	11,818
Logistics related service income from an associated company	(x)	**5,256**	4,777

(i) Pursuant to the master distribution and sales of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years ending 31 December 2020, 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 ended 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 2019, aggregate operating lease rental and license fee received approximated US$5,300,000 (2018: US$4,393,000). On 21 November 2019, the Company entered into a renewed master lease agreement for the properties leasing or sub-leasing and/or licensing arrangements for a term of three years commencing 1 January 2020.

(iii) For the year ended 31 December 2019, 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$815,693,000 (2018: US$1,363,013,000). The new buying agency agreement with term commencing from 1 April 2020 to 31 March 2023 has been signed on 21 November 2019 between the Group and Global Brands Group. The new buying agency agreement was approved by Global Brands's independent shareholders on 5 March 2020.

37 Related Party Transactions from Continuing Operations (continued)

(iv) Pursuant to the master agreement for provision of logistics related services entered into on 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$9,415,000 (2018: US$16,725,000).

(v) 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 year ended 31 December 2019, aggregate service fee received was US$24,929,000 (for the period from 3 April to 31 December 2018: US$20,500,000).

(vi) Pursuant to the master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license received 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 year ended 31 December 2019 with an aggregate amount of US$4,614,000 (for the period from 3 April to 31 December 2018: US$2,327,000).

(vii) 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 year ended 31 December 2019, 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 approximate US$71,253,000 (for the period from 3 April to 31 December 2018: US$53,419,000).

(viii) For the period from 1 January 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.

(ix) 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. During the year, based on the specific services provided under the Services Agreement, FCSG charged the Group on an actual costs recovery basis, amounting to US$56,268,000 (for the period from 1 November to 31 December 2018: US$11,818,000).

(x) During the year, the Group provided certain Logistics related service to an associated company, the Group charged Logistics related service income on mutually agreed normal commercial terms amounting to US$5,256,000 (2018: US$4,777,000).

Other than (viii), (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 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 42.

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

38 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

Most of the Group's cash balances 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 2019, if the major foreign currencies, such as Euro and Pound Sterling, to which the Group had exposure had strengthened/weakened by 10% (2018: 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 (2018 (Restated): 0.2% lower/higher) and 2.4% higher/lower (2018 (Restated): 2.8% higher/lower), mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, borrowings and intangible assets.

38 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 2019 and up to the report date of the financial statements, the Group held no material derivative financial 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 2019, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$314,000 (2018: US$3,985,000 as derivative financial instruments (assets)), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (liabilities).

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

At 31 December 2019, 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$869,000 (2018: US$634,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

38 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 is exposed to credit risk from its operating activities. This arises primarily from its principal trading business, where the Group acts as a supplier, and working capital solutions, where it settles invoices earlier at a discount to certain suppliers via LF Credit. The Group therefore assumes direct counterparty risk for its customers in terms of these account receivables and inventory.

All new customers undergo a risk assessment process prior to trade terms being agreed in accordance with the Group's global credit risk management framework. These assessments focus on the financial strength of individual customers as well as information specific to the customer and the economic environment in which each customer operates. To further reduce its exposure to credit risks, (a) the Group would require collateral (such as standby or commercial letters of credit, or bank guarantees) from customers if necessary, and (b) the Group has also taken out trade credit insurance to protect against losses arising from non-payment, and have entered into trade receivables factoring agreements with financial institutions on a non-recourse basis. Both receivable balances and inventory levels are reviewed regularly according to the Group's credit policies and follow-up action is taken to recover overdue balances. Furthermore, the Group's management reviews regularly the recoverable amount of its trade receivables to ensure that adequate impairment provision is made.

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

For 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 Group will apply impairment loss provisions, in whole or in part, when the Group has assessed the indicators whether the receivables are unrecoverable, has made all practical recovery efforts, and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, debtor insolvency proceedings, the failure of a debtor to make ongoing settlement with the Group, a failure to make contractual payments on accounts receivable that are more than 365 days past due and a failure to agree on a settlement plan.

The provision for impairment is considered individually and collectively for different trade receivable categories. When determining the appropriate level of provision for impairment for individual trade receivable categories, the indicators outlined above will be considered both generally for the Group or specifically for that trade receivable category. As at 31 December 2019, based on these indicators, the composition and ageing of the trade receivables for which the Group has made provision for impairment as compared to gross trade receivables are as follows: for trade receivables not yet due to 90 days past due, 91 to 180 days past due and over 180 days past due is 0.2%, 15.8% and 28.5% respectively.

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.

Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

38 Financial Risk Management (continued)

(b) Credit Risk (continued)

The provision for impairment for trade receivables during the year was set out in Note 21.

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 2019, trade receivables of US$11,317,000 (2018: US$49,040,000) and other receivables of US$533,000 (2018: US$2,240,000) have been provided for but none of the other financial assets including financial assets at fair value through other comprehensive income (Note 17) and due from related companies (Note 19) have been considered impaired as there is no recent history of default of the counterparties and ongoing payments are received. Impairment loss provisions will be considered if there are indicators that there is no reasonable expectation of recovery on these amounts, including if the counterparty fails to make contractual payments for a period of greater than 365 days past due.

The ageing of the trade amount due from other related companies based on due date is set out in Note 19.

Global Brands Group is a related party of the Group. As at 31 December 2019, the total accounts receivable from Global Brands Group amounted to US$533,766,000. Following the divestment of its US wholesale business in October 2018, Global Brands Group underwent major restructuring efforts to turn around its business. Whilst Global Brands Group's financial condition has improved as a result of these restructuring efforts, Global Brands Group's cash flow, which was partly impacted by one-time restructuring charges, was not yet sufficient to settle all shipments of goods on time in 2019.

Due to the slowdown in the settlement of accounts receivable, the ageing profile of accounts receivable from Global Brands Group deteriorated in 2019 with US$147,909,000 overdue 91 to 180 days and US$141,363,000 overdue 181 to 365 days (compared to US$77,017,000 overdue 91 to 180 days and US$15,147,000 overdue 181 to 365 days as at the end of 2018). Global Brands Group continues to pay and settle its outstanding receivables on a monthly basis. There are no accounts receivable being overdue more than 365 days. Accordingly and in compliance with its accounting policies, the Company has concluded that no accounts receivable provisions are required as at 31 December 2019.

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 22)) 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 28 for long-term liabilities.

38 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
At 31 December 2019				
Purchase consideration payable for acquisitions	**–**	**4,823**	**–**	**–**
Long-term bank loan — unsecured	**–**	**220,000**	**80,000**	**–**
Long-term notes — unsecured	**405,870**	**21,875**	**565,625**	**–**
Trade and bills payable	**1,503,684**	**–**	**–**	**–**
Accrued charges and sundry payables	**544,015**	**–**	**–**	**–**
Due to related companies	**8,181**	**–**	**–**	**–**
Short-term bank loans — unsecured	**4,906**	**–**	**–**	**–**
Lease liabilities	**129,584**	**97,096**	**167,533**	**58,066**
At 31 December 2018 (Restated)				
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	585,897	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	37,809	–	–	–
Short-term bank loans – unsecured	272,951	–	–	–
Lease liabilities	141,444	87,767	148,797	82,121

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$166,062,000 (31 December 2018: US$166,295,000) and undiscounted contractual cash outflows of US$166,186,000 (31 December 2018: US$159,933,000).

39 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans (Note 24), long-term bank loan (Note 24) and long-term notes (Note 28)) less cash and cash equivalents (Note 22). 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 2019 and 2018 were as follows:

	2019 **US$'000**	2018 US$'000 (Restated)
Long-term bank loan (Note 24)	**300,000**	1,034
Short-term bank loans (Note 24)	**4,906**	272,951
Long-term notes (Note 28)	**871,254**	751,405
	1,176,160	1,025,390
Less: Cash and cash equivalents (Note 22)	**(932,167)**	(612,391)
Net debt	**243,993**	412,999
Total equity	**2,112,786**	1,854,832
Total capital	**2,356,779**	2,267,831
Gearing ratio	**10%**	18%

40 Fair Value Estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2019.

	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 17)				
– Club debentures	**–**	**–**	**2,737**	**2,737**
Total assets	**–**	**–**	**2,737**	**2,737**
Liabilities				
Derivative financial instrument used for hedging (Note 20)	**–**	**314**	**–**	**314**
Purchase consideration payable for acquisitions	**–**	**–**	**4,823**	**4,823**
Total liabilities	**–**	**314**	**4,823**	**5,137**

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 17)				
— Club debentures	–	–	4,601	4,601
Derivative financial instruments used for hedging (Note 20)	–	3,985	–	3,985
Total assets	–	3,985	4,601	8,586
Liabilities				
Purchase consideration payable for acquisitions	–	–	8,960	8,960
Total liabilities	–	–	8,960	8,960

40 Fair Value Estimation (continued)

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of foreign exchange forward 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 was 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.

40 Fair Value Estimation (continued)

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 2019 and 2018.

	2019		2018	
	Purchase consideration payable for acquisitions US$'000	**Others US$'000**	Purchase consideration payable for acquisitions US$'000	Others US$'000
Opening balance	**8,960**	**4,601**	61,583	4,338
Fair value gains	**–**	**145**	–	134
Additions	**–**	**–**	–	129
Disposal	**–**	**(2,009)**	–	–
Settlement	**(3,661)**	**–**	(42,889)	–
Remeasurement of acquisitions payable	**(621)**	**–**	(8,948)	–
Others	**145**	**–**	(786)	–
Closing balance	**4,823**	**2,737**	8,960	4,601
Total gain for the year included in profit or loss	**621**	**–**	8,948	–

41 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December 2019 US$'000	2018 US$'000
Non-current assets			
Interests in subsidiaries		**1,132,459**	1,132,210
Current assets			
Due from subsidiaries		**4,261,640**	4,502,273
Due from related companies		**–**	2,394
Other receivables, prepayments and deposits		**220**	570
Cash and bank balances		**685**	1,535
		4,262,545	4,506,772
Current liabilities			
Due to subsidiaries		**249,300**	488,166
Accrued charges and sundry payables		**10,868**	6,049
Current portion of long-term notes		**374,361**	–
		634,529	494,215
Net current assets		**3,628,016**	4,012,557
Total assets less current liabilities		**4,760,475**	5,144,767
Financed by:			
Share capital		**13,686**	13,633
Reserves	(a)	**3,594,209**	3,724,042
Shareholders' funds		**3,607,895**	3,737,675
Holders of perpetual capital securities		**655,687**	655,687
Total equity		**4,263,582**	4,393,362
Non-current liabilities			
Long-term notes		**496,893**	751,405
		4,760,475	5,144,767

William Fung Kwok Lun
Director

Spencer Theodore Fung
Director

41 Balance Sheet and Reserve Movement of the Company (continued)

(a) Reserve Movement of the Company

	Share premium US$'000	Treasury shares US$'000 (Note 26 (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 2019	**744,325**	**(15,749)**	**454,640**	**64,121**	**2,476,705**	**3,724,042**
Loss for the year	**–**	**–**	**–**	**–**	**(85,591)**	**(85,591)**
Purchase of shares for Share Award Scheme	**–**	**(2,691)**	**–**	**–**	**–**	**(2,691)**
Issuance of shares for Share Award Scheme	**–**	**(53)**	**–**	**–**	**–**	**(53)**
Employee Share Option and Share Award Scheme:						
— value of employee services	**–**	**–**	**–**	**13,312**	**–**	**13,312**
— vesting of shares for Share Award Scheme	**16,429**	**1,897**	**–**	**(18,326)**	**–**	**–**
2018 final dividend paid	**–**	**–**	**–**	**–**	**(43,848)**	**(43,848)**
2019 interim dividend paid	**–**	**–**	**–**	**–**	**(10,962)**	**(10,962)**
Balance at 31 December 2019	**760,754**	**(16,596)**	**454,640**	**59,107**	**2,336,304**	**3,594,209**
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

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.

42 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 2019:

	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	Salary	Discretionary bonuses	Housing allowance	Award Shares gain	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director		Total
	US$'000	US$'000	US$'000 (Note (i))	US$'000	US$'000 (Note (ii))	US$'000 (Note (iii))	US$'000	US$'000	US$'000	US$'000
Executive Directors										
William Fung Kwok Lun	39	619	-	-	97	-	-	-	-	755
Spencer Theodore Fung	39	653	247	-	253	-	2	-	-	1,194
Joseph C. Phi	39	603	286	-	217	27	2	-	2,000	3,174
Non-executive Directors										
Victor Fung Kwok King	63	-	-	-	-	-	-	-	-	63
Marc Robert Compagnon (Note (iv))	45	151	54	-	235	30	1	-	-	516
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	57	-	-	-	-	-	-	-	-	57

NOTES:

(i) The amounts are accrued discretionary bonuses for 2019.

(ii) Award Shares gain is determined based on the market price at the vesting date.

(iii) Other benefits include mortgage interest subsidy.

(iv) Re-designated to Non-executive Director of the Company on 28 January 2019.

42 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 2018:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:									
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Award Shares gain	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	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	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
			(Note (i))		(Note (ii))	(Note (iii))				
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.

42 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 (2018: Nil) was issued to any Directors of the Company under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2019, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
8,000,000 (2018: 10,000,000)	HK$12.12[1]	Exercisable in four equal tranches during the period from 1/5/2018 to 30/4/2023 with each tranche having an exercisable period of two years
6,447,000 (2018: 12,894,000)	HK$7.49	Exercisable during the period from 1/1/2018 to 31/12/2019

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 2019 was HK$0.85.

(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 (2018: 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 (2018: 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 (2018: None).

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

43 Subsequent Event

Following the outbreak of the COVID-19 virus in early 2020, precautionary and control measures including quarantine, travel restrictions and temporary production halts have been and continue to be implemented across China and around the world in many other countries which are relevant to the Group's business and operations.

The further spread and continuation of the COVID-19 virus is expected to affect consumer sentiment and the overall retail environment, which the Group believes could last throughout the year. Given the COVID-19 virus impact is creating more volatility and uncertainty in the global economy, the Group's customers will likely be negatively impacted. However, the spread and impact of the COVID-19 virus is still developing and its impact on the global economy and the likely impact on the Group's business and operations is extremely difficult to assess.

The Group has taken relevant actions to minimize the impact of the COVID-19 virus to its operations and will continue to pay close attention to developments and evaluate their impact on the financial position and operating results of the Group.

In preparing the financial statements, the impact of the COVID-19 virus has not been considered because it is a post balance sheet non-adjusting event and the financial impact, including the assessment of risk associated with the Group's operations, the adequacy of provision for impairment of receivables and the present value of estimated future cash flow of the CGUs in the goodwill impairment test, has yet to be ascertained but will be reflected in future financial statements when the actual impact is known.

44 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 20 March 2020.

45 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)	Golden Gate Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US$12,000.1	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
(1)	LF Logistics Holdings Limited	Bermuda	Ordinary US$127.76	78.3	Investment holding
	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
(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
	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$75,000	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

45 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)	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	100	Investment holding
			Ordinary "B" (Non-voting) GBP5		
(1)	Estuary Logistics Limited	England	Ordinary "A" GBP200	100	Provision of logistics services
			Ordinary "B" (Non-voting) GBP100		
(1)	Fireworks Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Curacao	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
(1)	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 Ticaret Anonim Sirketi	Turkey	TL50,000	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
	Intri Fashions Limited (formerly known as Wilson Textile Limited)	Hong Kong	Ordinary HK$1	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 Peso 21,000,000	100	Provision of logistics services
(1)	LF Americas Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	LF Asia Direct Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Asia Direct Management Limited	Hong Kong	Ordinary HK$1	100	Investment holding
(1)	LF OnE Inc. (formerly known as LF Beauty Inc.)	U.S.A.	Common stock US$1	100	Investment holding

45 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 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 GBP26,788,004	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
	LF Logistics (Australia) Pty Limited	Australia	Ordinary AU$100	100	Provision of logistic services
(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

45 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
	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 KRW 3,000,000,000	100	Provision of freight forwarding and other logistics services
	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
	Licus GmbH	Germany	EUR50,000	100	Importer

45 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
(1)	Li & Fung (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$50,000	100	Export trading
(1)	Li & Fung (Philippines) Inc.	The Philippines	Common shares Peso 1,000,000	100	Export trading services
(1)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
(1)	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT$175,000,000	100	Sourcing and inspection
(1)	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 4,000,000	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
(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	TL45,356,100	100	Export trading services

45 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
(1)	Li & Fung 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
	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
	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

45 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				
	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares TL2,249,975 B Shares TL25	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	100	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. 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
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management

45 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**				
	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
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
(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

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 2019 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.

45 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**				
#	Ningbo Penavico-CCL International Freight Forwarding Co., Ltd.	The People's Republic of China	US$1,000,000	40	Provision of freight forwarders services
#	FNX Technologies Canada Ltd.	Canada	Common stock US$1	45	Development of 3D-enabling technology
#	FNX Technologies, Ltd.	U.S.A.	Common stock US$45	45	Investment holding
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 2019 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

	2019 US$'000	2018 US$'000 (Note 1&7) (Restated)	2017 US$'000 (Note 1&7) (Restated)	2016 US$'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
Turnover	**11,413,312**	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
Core Operating Profit	**227,547**	295,135	362,925	318,401	509,391	604,143	737,094	511,173	882,056	725,138
Operating profit	**148,318**	257,300	337,145	300,398	591,952	723,625	811,726	790,703	879,937	679,318
Interest income	**11,531**	10,608	12,261	15,713	9,761	6,984	9,177	20,385	19,490	13,567
Finance costs	**(89,786)**	(70,478)	(81,998)	(90,448)	(99,541)	(105,179)	(107,575)	(135,109)	(128,594)	(98,443)
Share of net (losses)/profits of associated companies and joint venture	**(36)**	205	1,898	1,748	1,570	1,373	442	638	1,231	1,850
Profit before taxation	**70,027**	197,635	269,306	227,411	503,742	626,803	713,770	676,617	772,064	596,292
Taxation	**(15,756)**	(29,855)	(39,426)	(32,288)	(57,890)	(59,035)	(72,011)	(54,053)	(90,660)	(47,525)
Profit/(loss) for the year										
Continuing Operations	**54,271**	167,780	229,880	195,123	–	567,768	641,759	–	–	–
Discontinued Operations	**–**	(139,142)	(543,045)	61,068	–	(98,122)	113,528	–	–	–
Net profit/(loss) for the year	**54,271**	28,638	(313,165)	256,191	445,852	469,646	755,287	622,564	681,404	548,767
Attributable to:										
Shareholders of the Company	**16,748**	(13,308)	(378,333)	221,077	418,013	441,276	725,337	617,416	681,229	548,491
Holders of perpetual capital securities	**34,125**	46,125	64,125	35,687	30,000	30,000	30,000	4,415	–	–
Non-controlling interests	**3,398**	(4,179)	1,043	(573)	(2,161)	(1,630)	(50)	733	175	276
	54,271	28,638	(313,165)	256,191	445,852	469,646	755,287	622,564	681,404	548,767
Earnings per share (HK cents)										
Basic	**1.6**	11.4(5)	15.8(5)	14.9(5)	39.1	50.3(5)	57.1(5)	58.1	65.8	55.9(4)
equivalent to (US cents)	**0.20**	1.47(5)	2.03(5)	1.92(5)	5.04	6.46(5)	7.32(5)	7.45	8.43	7.17(4)
Dividend per share (HK cents)	**1.0**	7.0	13.0	23.0	28.0	34.0	41.5(6)	31.0	53.0	45.0
equivalent to (US cents)	**0.1**	0.9	1.68	2.96	3.61	4.36	5.32(6)	3.97	6.79	5.77
Special dividend per share (HK cents)	**–**	–	47.6	–	–	7.0	–	–	–	–
equivalent to (US cents)	**–**	–	6.14	–	–	0.90	–	–	–	–

CONSOLIDATED BALANCE SHEET

	2019 US$'000	2018 US$'000 (Note 1&7) (Restated)	2017 US$'000 (Note 1&7) (Restated)	2016 US$'000 (Note 2)	2015 US$'000 (Note 2)	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Intangible assets	**2,298,948**	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
Property, plant and equipment	**195,876**	201,973	187,943	221,550	241,626	244,907	439,599	418,624	325,432	309,186
Right-of-use asset	**383,802**	391,970	421,027	–	–	–	–	–	–	–
Other non-current assets	**61,395**	52,566	65,979	59,933	78,923	58,160	119,558	160,930	120,195	127,456
Current assets	**2,859,843**	2,748,787	3,909,067	3,526,322	3,356,881	3,824,872	4,297,740	4,379,969	3,951,571	4,177,788
Current liabilities	**2,573,857**	2,794,024	2,914,902	3,314,537	3,373,631	3,701,518	4,082,124	3,873,938	3,664,820	3,317,362
Net current assets/(liabilities)	**285,986**	(45,237)	994,165	211,785	(16,750)	123,354	215,616	506,031	286,751	860,426
	3,226,007	2,922,566	4,016,125	4,390,241	4,570,662	4,775,504	8,383,329	8,143,991	7,258,377	6,179,234
Financed by:										
Share capital	**13,686**	13,633	13,574	13,487	13,487	13,398	13,398	13,396	12,987	12,899
Holders of perpetual capital securities	**655,687**	655,687	1,158,687	1,158,687	503,000	503,000	503,000	504,415	–	–
Reserves	**1,443,413**	1,185,512	1,728,368	2,286,810	2,470,423	2,593,680	5,033,287	4,619,509	3,918,012	3,611,572
Shareholders' funds	**2,112,786**	1,854,832	2,900,629	3,458,984	2,986,910	3,110,078	5,549,685	5,137,320	3,930,999	3,624,471
Other non-current liabilities	**1,113,221**	1,067,734	1,115,496	931,257	1,583,752	1,665,426	2,833,644	3,006,671	3,327,378	2,554,763
	3,226,007	2,922,566	4,016,125	4,390,241	4,570,662	4,775,504	8,383,329	8,143,991	7,258,377	6,179,234

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 2016 and 2015 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.

(7) The Group has adoption of HKFRS 16 in 2019. Comparatives for year ended 31 December 2018 and 2017 have been restated accordingly. The financial results prior to 2017 have not been restated.

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)	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 the 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 2019
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	ordinary share(s) of HK$0.0125 each in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Award Scheme	the share award scheme of the Company adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015
Share Option(s)	the outstanding option(s) granted under the 2003 Option Scheme and/or 2014 Option Scheme
Stock Exchange	The Stock Exchange of Hong Kong Limited
US$	United States dollar(s), the lawful currency of the United States of America

Corporate information

Executive Directors

William Fung Kwok Lun
Spencer Theodore Fung
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 and Registered PIE Auditor
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

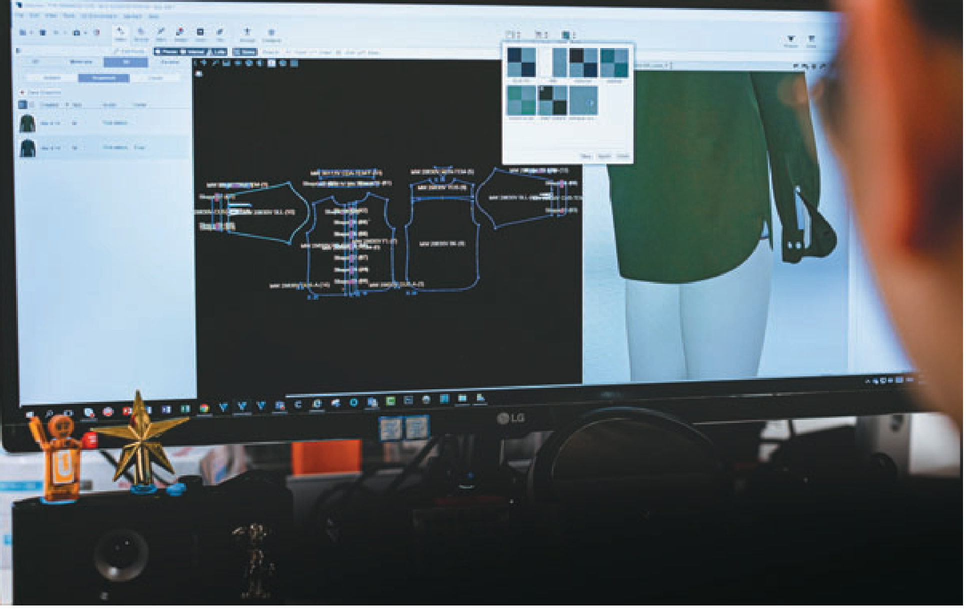
Mayer Brown JSM
16th-19th Floors, Prince's Building
10 Chater Road, Central, Hong Kong

Registered Office

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10, Bermuda

Hong Kong Office

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