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The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

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Li & Fung Limited

(incorporated in Bermuda with limited liability)

US\$2,000,000,000 Medium Term Note and Perpetual Securities Programme (the “Programme”)

Under the US\$2,000,000,000 Programme described in this Offering Circular, Li & Fung Limited (the “**Issuer**” or the “**Company**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”) and perpetual securities (the “**Securities**”) and together with the Notes, the “**Instruments**”) under the Programme.

Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in, and the quotation of, any Instruments that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Official List of the SGX-ST. In addition, at the relevant time of issue of the Instruments which are agreed at or prior to the time of issue to be listed on the Official List of the SGX-ST, a separate application will be made to the SGX-ST for the permission to deal in, and quotation of, such Instruments on the Official List of the SGX-ST. Such permission will be granted when the Instruments have been admitted to the Official List of the SGX-ST. There is no assurance that the application to the SGX-ST for permission to deal in, and quotation of, the Instruments of any Series (as defined herein) will be approved. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular. The approval in-principle from, and admission to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Group (as defined herein), the Programme and/or the Instruments.

The Programme provides that Instruments may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Instruments and/or Instruments not admitted to trading on any market. The relevant Pricing Supplement in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the SGX-ST or any other stock exchange.

The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state of the United States, and the Notes may include Bearer Notes (as defined herein) that are subject to U.S. tax law requirements. Subject to certain exceptions, the Instruments may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States. Registered Instruments are subject to certain restrictions on transfer, see “Subscription and Sale”.

The Notes of each Series issued in bearer form (“**Bearer Notes**”) will be represented on issue by a temporary global note in bearer form (each a “**Temporary Global Note**”) or a permanent global note in bearer form (each a “**Permanent Global Note**”) and together with the Temporary Global Note, the “**Global Notes**”). Instruments in registered form (“**Registered Instruments**”) will be represented by a global certificate in registered form (each a “**Global Certificate**”), one Global Certificate being issued in respect of each Noteholder’s and/or Securityholder’s entire holding of Instruments in registered form of one Series. Global Certificates may be deposited on the relevant issue date with a common depository on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream**”). The provisions governing the exchange of interests in Global Notes and Registered Instruments for other Global Notes and Registered Instruments, definitive Notes and individual Certificates are described in “*Summary of Provisions Relating to the Instruments while in Global Form*”.

MIFID II product governance / target market — The Pricing Supplement in respect of any Instruments may include a legend entitled “MiFID II Product Governance” which will outline the target market in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person offering, selling or recommending the Instruments (a “**distributor**”) should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, “**MIFID II**”) is responsible for undertaking its own target market assessment in respect of the Instruments and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRIPs / IMPORTANT — EEA AND UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Instruments includes a legend entitled “Prohibition of Sales to EEA and UK Retail Investors”, the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”) or in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the “**PRIPs Regulation**”) for offering or selling the Instruments or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIPs Regulation.

Singapore Securities and Futures Act Product Classification — Unless otherwise stated in the Pricing Supplement in respect of any Instruments, all Instruments issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The aggregate nominal amount of Instruments outstanding will not at any time exceed US\$2,000,000,000 (or its equivalent in other currencies), subject to increase as described herein. The Instruments may be issued to any Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**”) and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “**Relevant Dealer**” shall, in the case of an issue of Instruments being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Instruments.

The Instruments may be assigned ratings by any of Standard & Poor’s Rating Services (“**S&P**”) and/or Moody’s Investors Service, Inc. (“**Moody’s**”), in each case as specified in the relevant Pricing Supplement. Tranches (as defined in “**Definitions**”) of Instruments to be issued under the Programme may be rated or unrated. Where a Tranche of Instruments are to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in Instruments issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Instruments in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Instruments. Investors should not purchase Instruments unless they understand and are able to bear risks associated with Instruments. Prospective investors should have regard to the factors described under the section headed “*Risk Factors*” in this Offering Circular.

Arrangers

Citi

HSBC

Dealers

Bank of China (Hong Kong)
Mizuho Securities

Citi
Morgan Stanley

DBS Bank Ltd.

MUFG

Goldman Sachs (Asia) L.L.C.

HSBC
Standard Chartered Bank

The date of this Offering Circular is 27 August 2020

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the “**Group**”, “**we**” or “**us**”) and the Instruments which is material in the context of the issue and offering of the Instruments, (ii) the statements contained in it relating to the Issuer and the Group are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect, (iv) there are no other facts in relation to the Issuer, the Group or the Instruments, the omission of which would, in the context of the issue and offering of the Instruments, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer accepts full responsibility for the information contained in this Offering Circular.

Each Tranche (as defined in “*Definitions*”) of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” (the “**Note Conditions**”) and each Tranche of Securities will be issued on the terms set out herein under “*Terms and Conditions of the Securities*” (the “**Security Conditions**” and together with the Note Conditions, the “**Conditions**”) as amended and/or supplemented by a document specific to such Tranche by a Pricing Supplement. This Offering Circular and any Pricing Supplement must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Instruments, must be read and construed together with the relevant Pricing Supplement. This Offering Circular and any Pricing Supplement shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

The distribution of this Offering Circular and any Pricing Supplement and the offering of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular and any Pricing Supplement comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Instruments or the distribution of this Offering Circular and any Pricing Supplement in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Instruments and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the PRC, Hong Kong, Singapore and Bermuda, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Instruments and distribution of this Offering Circular and any Pricing Supplement, see “*Subscription and Sale*”.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group or the Instruments, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Arrangers, the Dealers, the Trustee (as defined herein) or the Agents (as defined herein). Neither the delivery of this Offering Circular and any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Instruments shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular and any Pricing Supplement does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents to subscribe for or purchase any of the Instruments and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arrangers, the Dealers, the Trustee or the Agents. None of the Arrangers, the Dealers, the Trustee and the Agents has independently verified any of the information contained in this Offering Circular and can give assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor

should it be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Instruments. Each potential purchaser of the Instruments should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Instruments should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular. Each of the Arrangers, the Dealers, the Trustee and the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Instruments of any information coming to the attention of the Arrangers, the Dealers, the Trustee or the Agents.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE ARRANGERS AND DEALERS DESIGNATED AS THE STABILISATION MANAGER(S) (OR ANY PERSON(S) ACTING FOR IT) (THE “STABILISATION MANAGER(S)”) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER(S) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED TIME. ANY STABILISATION ACTION OR OVERALLOTMENT MUST BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Instruments.

Each person receiving this Offering Circular and any Pricing Supplement acknowledges that such person has not relied on the Arrangers, the Dealers, the Trustee or the Agents or any person affiliated with the Arrangers, the Dealers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision.

The Issuer’s consolidated financial statements as of and for the years ended 31 December 2018 and 2019, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers.

Unless otherwise indicated, all references in this Offering Circular to “China” or the “PRC” are to the People’s Republic of China and, for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, all references to “Hong Kong” are to the Hong Kong Special Administrative Region of China. References herein to the “US”, “U.S.” or the “United States” are to the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

Unless otherwise specified or the context requires, references herein to “Renminbi”, “RMB” or “CNY” are to the lawful currency of the PRC, references herein to “Hong Kong dollars”, “HK dollars”, “HK” or “HKD” are to the lawful currency of Hong Kong and references herein to “U.S. dollars”, “US\$” or “USD” are to the lawful currency of the United States.

This Offering Circular contains translations of certain HK dollar amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of HK dollar amounts into U.S. dollar amounts has been made at the rate of HK\$7.76 to US\$1.00. These translations should not be construed as representations that the HK dollar amounts could be converted into such U.S. dollar amounts at the rates indicated or at all.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Arrangers, the Dealers, the Trustee, the Agents or their respective directors and advisers, and none of the Issuer, the Arrangers, the Dealers, the Trustee, the Agents and their respective directors and advisers makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and the actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements regarding the intent, belief or current expectations of the Issuer with respect to its financial condition and future results of operations. In many cases, but not all, words such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “probability”, “project”, “risk”, “seek”, “should”, “target” and similar expressions are used in relation to the Issuer or Group to identify forward-looking statements. Forward-looking statements may also be identified in discussions of strategy, plans or intentions. These statements reflect the current views of the Issuer or the Group with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, the Issuer’s or the Group’s actual results may vary materially from those it currently anticipates. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Offering Circular. Any obligation to update, or to announce publicly any revision to, any of the forward-looking statements contained in this Offering Circular to reflect future actual events or developments is disclaimed. The information contained in this Offering Circular, including without limitation the information under “*Risk Factors*”, and “*Description of the Group*”, identifies important factors that might cause the forward-looking statements not to be realised.

INFORMATION INCORPORATED BY REFERENCE AND FINANCIAL INFORMATION

This Offering Circular should be read and construed in conjunction with:

- (i) each relevant Pricing Supplement;
- (ii) all amendments and supplements from time to time to this Offering Circular; and
- (iii) any annual audited financial statements of the Issuer that are published subsequent to the date of this Offering Circular as amended and supplemented from time to time,

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Any unaudited financial statements should not be relied upon to provide the same quality of information associated with information that has been subject to an audit nor taken as an indication of the expected financial condition and results of operations of the Company for the relevant full financial year. Potential investors must exercise caution when using such data to evaluate the Company's financial condition, results of operations and results.

CONTENTS

	PAGE
SUMMARY OF THE GROUP	1
SUMMARY OF THE PROGRAMME	10
SELECTED FINANCIAL INFORMATION OF THE GROUP	20
RISK FACTORS	23
FORM OF PRICING SUPPLEMENT IN RELATION TO THE NOTES	44
FORM OF PRICING SUPPLEMENT IN RELATION TO SECURITIES	53
TERMS AND CONDITIONS OF THE NOTES	60
TERMS AND CONDITIONS OF THE SECURITIES	89
SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM	113
USE OF PROCEEDS	118
CAPITALISATION AND INDEBTEDNESS	119
DESCRIPTION OF THE GROUP	120
DIRECTORS AND MANAGEMENT	148
TAXATION	152
SUBSCRIPTION AND SALE	154
GENERAL INFORMATION	159
INDEX TO FINANCIAL INFORMATION	F-1

SUMMARY OF THE GROUP

The following summary is qualified in its entirety by the remainder of this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Instruments should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined in this Offering Circular shall have the meanings given to them in “Terms and Conditions of the Notes” and “Terms and Conditions of the Securities” (as applicable).

OVERVIEW

We are the world’s leading supply chain solutions partner for consumer brands and retailers, measured by turnover (approximately US\$11,413 million for the year ended 31 December 2019). We specialise in responsible supply chain management of high-volume, time-sensitive goods for leading retailers and brands worldwide via an extensive global network. We have a history that can be traced back to 1906 and have played a key role in the development of the global supply chain over the past century.

We provide sophisticated, end-to-end supply chain solutions to meet customers’ specific needs and play an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process by providing crucial support, ranging from product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions. Our customer base includes a diverse range of brands and retailers including brands, specialty stores, department stores, big box retailers, e-commerce players, clubs, hypermarkets and off-price retailers.

Our spectrum of services covers the entire supply chain and spans a range of consumer products, from softgoods, such as fashion apparel, children’s wear, sportswear, outerwear, handbags and accessories (which constituted around 73% of the Group’s business by turnover for the year ended 31 December 2019, excluding the logistics business), to hardgoods, such as footwear, home decor and textiles, seasonal products and gifts (which constituted around 27% of the Group’s turnover for the year ended 31 December 2019, excluding the logistics business), with the end products being sold to consumers through multiple channels. Turnover from our logistics business constituted around 10% of the Group’s turnover for the year ended 31 December 2019.

Business Model

We have over 230 offices and 270 distribution centres with around 16,796 employees across more than 50 economies globally, spanning the Americas, Europe, Africa and Asia Pacific. Our global sourcing network of suppliers conforms to strict quality assurance testing through factory evaluations, laboratory testing, on site production monitoring and multiple inspections. With our local market knowledge, our network has the capacity and flexibility to respond rapidly to evolving consumer trends and to react to market disruptions. The Group’s turnover for the year ended 31 December 2019 is divided among geographical areas as follows: U.S. — 65%; Europe — 18%; Asia — 11%; Rest of World — 6%.

Since late 2018 we have initiated a significant Company-wide reorganisation followed by key leadership appointments, including in the roles of Chief Operating Officer (“**COO**”) in October 2018 to lead the sourcing and production platform, Chief Digital Officer (“**CDO**”) in early January 2019 to lead the digital drive, and Group President in late January 2019 to focus on account management and business development, making one of the most significant changes in our recent operating history.

Following such reorganisation, we now operate through two reorganised segments, the “**Services segment**” and the “**Products segment**”:

- (a) **Services Segment.** Our Services segment is organised according to two business lines, “**Supply Chain Solutions**” which encompasses most of our agency services business and certain of the products of our principal-trading services business and “**Logistics Services**” which incorporates the former Logistics Network business segment. Under the Services segment we provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse

management and last-mile delivery to retail stores or end-consumers. Cross-selling between Supply Chain Solutions and Logistics Services has brought more revenue opportunities, attracted new customers and further solidified our relationships with customers.

Supply Chain Solutions 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 base for services that can improve vendors' operational efficiencies and compliance levels.

Logistics Services comprises Asia-focused in-country logistics and global freight management. In-country logistics includes warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services. Global freight management offers cargo consolidation and deconsolidation, freight forwarding and customs clearance. 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 sought to offer our customers higher value services such as 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, our transport business has grown significantly.

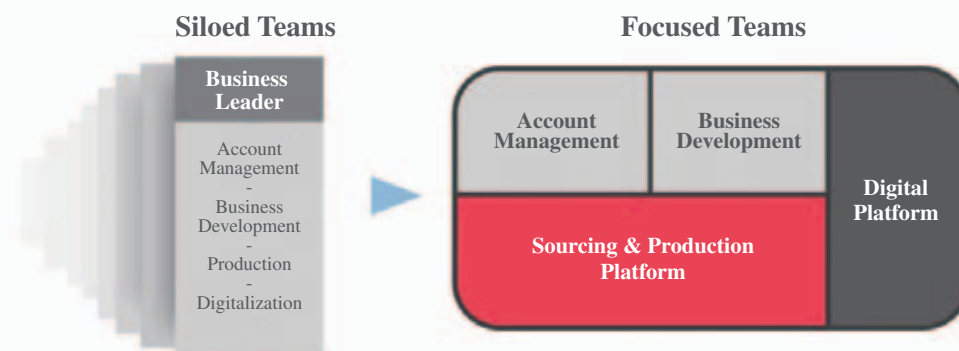
- (b) **Products Segment.** Our Products segment now consists of our onshore wholesale business in three markets — the Americas, Europe and Asia (the “**Onshore Wholesale Business**”) to supply apparel to mainly the same customer base as our Supply Chain Solutions business with the Group acting as an onshore importer for customers. As a principal trader, we sell to our customers' in-house buying offices and are responsible for services ranging from product design and development to production, quality control and local logistics. Although the terms of each order are agreed on a per-programme basis, our relationships with customers of our Onshore Wholesale Business are typically long-term and strategic in nature.

The Group President, Joseph Phi, oversees both account management and business development in the Supply Chain Solutions business. We have adopted a “3x3 Strategy” through which we place equal emphasis on three “soft” aspects of customer relationship management (being “people first”, “operations centric” and “customer obsessed”) and three “hard” aspects of customer relationship management (being “operations excellence”, “account management” and “business development”). On the soft side, we are seeking to instill in our teams a philosophy that increased revenue will come from customers who are delighted by the experiences we create, operations-centric behaviours that are measured and incentivised, and improving customer satisfaction.

On the hard side, we have put in place a key performance indicator (“**KPI**”) dashboard that tracks operational excellence metrics which are aligned with the individual goals of customers and vendors. Following the system's implementation, KPIs such as on-time delivery rates and claim rates have improved and customer satisfaction has increased.

Dedicated account managers now have more time to focus on serving top customers and increasing revenues from such customers. In addition to focusing on key customers, we began reviewing the tail of our customer base, with emphasis on sustainable profitability and risk management. As a result we have reduced the business we do with some higher-risk customers as well as with small-scale customers despite the higher margins that came with their orders. This has resulted in temporary pressure on turnover and total margin but stronger risk control and resource allocation.

On the business development side, our efforts have been strengthened by our leadership in digital services and the geographic diversity of our sourcing network. Under the leadership of our new COO, Wilson Zhu, the old, siloed organisational model that was in place for many years has been replaced by a country-centric model, in which all businesses within a country integrate their resources for increased leverage, better communications and improved vendor management.



Historical silos have been broken down; and replaced by a unified platform that transcends geographical borders and capitalises on our scale. In each production country, new leaders with production knowledge and experience have been appointed, taking over from account managers who made decisions remotely under the old structure. These new leaders are empowered to manage the execution all of sourcing and production activities with vendors to enable faster, more accurate decisions on the ground and be better positioned to support account management teams. Operating with more autonomy, we believe that country leaders will also be able to foster deeper relationships with vendors.

Financial Performance

For the year ended 31 December 2019, the Group's turnover decreased by 10.1% compared to the year ended 31 December 2018 to approximately US\$11,413 million for Continuing Operations. This was mainly due to continued customer destocking, customer bankruptcies and store closures, as well as customer turnover in our Supply Chain Solutions business and the termination of non-strategic customer relationships. This was offset in part by new customer wins and market share gains for key customers, particularly in Logistics. For Supply Chain Solutions, customers have continued to adopt the Group's 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.

Core operating profit ("COP") for the Group decreased by 22.9% compared to the year ended 31 December 2018 to US\$228 million. This was largely due to decreases in turnover and total margin in the Supply Chain Solutions business, as well as continued investment in digitalization, an initiative that is in line with the Group's long-term strategic plan. This investment resulted in an increase in operating costs percentage-to-turnover ratio by 0.5% to 8.7% and a decrease in core operating profit margin by 0.3% to 2.0%.

As at 31 December 2019, the Group 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 utilised. Unused limits for bank loans and overdraft facilities amounted to US\$1,253 million, with US\$556 million being unused committed facilities. As at 31 December 2019, the Group's gearing ratio was 10%, calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans, long-term bank loans and long-term notes less cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

Three-Year Plan (2017-2019)

2019 marked the end of the Group's Three-Year Plan (2017-2019) where the goal was to create the Supply Chain of the Future by focusing on speed of product to market for our customers, innovation of product and service offerings, business models and ways of working and digitalization of the entire supply chain to help customers navigate the digital economy and to improve the lives of one billion people in the supply chain.

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 of speed, innovation and 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 value to our customers' business processes. We have 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 believe that we have 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.

Logistics

Our Logistics business has grown significantly since it became part of the Group in 2010, benefiting from rising middle-class consumption in Asia, the growth of e-commerce logistics, and geographic and vertical expansion.

In order to further accelerate the growth of the Logistics business, we had originally planned to seek a separate listing of the Logistics business on the Hong Kong Stock Exchange. However, after considering market conditions and geopolitical uncertainties, on 28 June 2019 we entered into a subscription agreement with Temasek, which via an indirect wholly owned subsidiary, Dahlia Investments, to subscribe for an approximate 21.7% stake in LF Logistics Holdings Limited ("**LF Logistics**") for cash consideration of US\$300 million. The transaction completed on 8 August 2019.

Through this transaction, we not only accomplished some of the objectives we wanted to achieve through the spin-off IPO of LF Logistics, but also brought in a reputable long-term investor. The transaction enhanced the Group's capital structure and financial flexibility. We also believe that the investment will help accelerate LF Logistics' business expansion. As the controlling shareholder of LF Logistics, we will continue to consolidate its results in our financial statements.

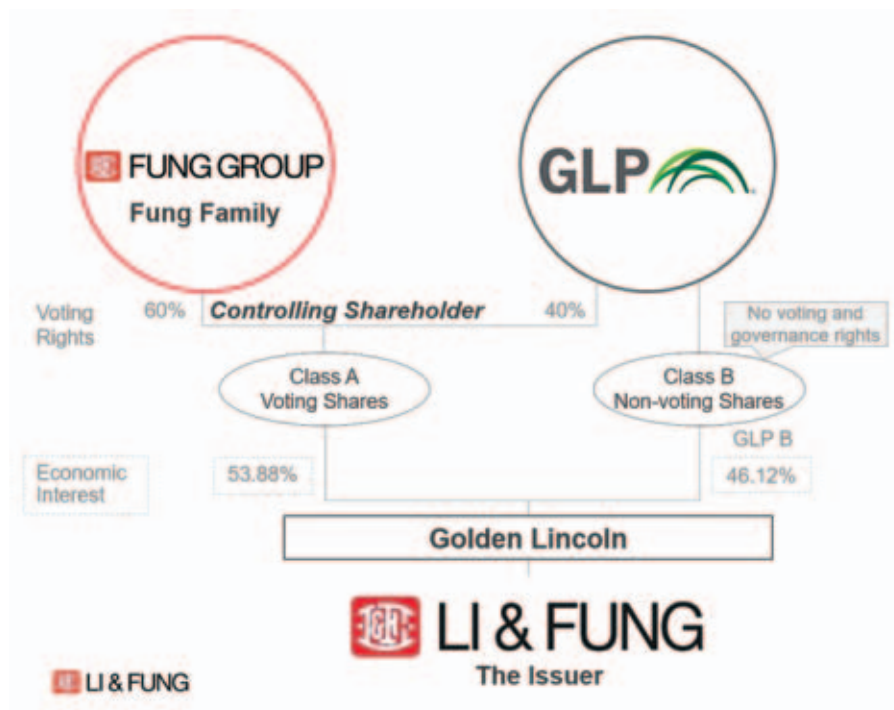
RECENT DEVELOPMENT

Privatization of the Issuer

On 20 March 2020, the Company received a request from Golden Lincoln Holdings I Limited (the "**Offeror**"), a special purpose vehicle established by the Fung family and GLP Pte. Ltd. to put forward a proposal to privatize the Company (the "**Privatization**") by way of a scheme of arrangement (the "**Scheme**"). The Fung family holds 60% of the voting shares in the holding company of the Issuer.

The Privatization was subsequently approved by independent shareholders and the Scheme became effective on 26 May 2020. The listing of the Company's shares was withdrawn from the Hong Kong Stock Exchange on 27 May 2020. The Privatization is expected to facilitate a transformation of the business amid challenging market environments alongside GLP as a strategic shareholder who is a leading global operator and investor in logistics, real estate, infrastructure, finance and related technologies with strong track record. No incremental financial indebtedness of the Issuer was required to implement the Scheme.

Following completion of the Privatization, the Issuer's shareholding structure was as follows:



In light of the digital disruption to the retail industry, the Issuer has undertaken restructuring efforts to reposition its businesses and to improve its competitive advantage. With the COVID-19 virus outbreak and macroeconomic uncertainties, the Issuer's transformation will involve execution risk and the associated benefits will require a longer time to materialize. The Issuer believes that the transformational efforts it is currently undertaking will require deeper restructuring efforts and further investments in technology, infrastructure, and talent. Despite the ongoing challenges, the Offeror has indicated that it remains committed to the Issuer's long-term prospects. The Offeror has indicated that it plans to contribute financial and operational resources to the Issuer in order to reinvigorate growth, seek out new business opportunities, and affirm its long-term preminent position in the market.

The Issuer intends to continue to make available its annual audited financial statements and half-yearly unaudited financial statements on its website to existing and (at the discretion of the Issuer) prospective noteholders. However, as a result of completion of the Privatization, the Issuer will no longer prepare and publish an annual report or an interim report or be required to publicly announce its annual or half-yearly financial statements.

Strategic investment from JD.com to accelerate development of digital supply chain

Following on from the Privatization, on 31 July 2020 JD.com invested US\$100 million in the Issuer via the holding company of the Issuer. The purpose behind this strategic investment is to accelerate the development of the digital supply chain with a proven digital partner. The Issuer also plans to grow its business in China by partnering with JD.com on private label initiatives for the China domestic market by leveraging the Issuer's global network and digital supply chain.

As a leading technology driven e-commerce company, the Issuer believes that JD.com fits well with the Issuer's goal of creating the Supply Chain of the Future. JD.com has been developing proprietary supply chain technologies for many years and has created digital retail and supply chain platforms that are fully integrated to support its omni channel strategies.

With the new partnership between the Fung family and GLP, together with the addition of JD.com as a strategic investor, the Issuer is aiming to leverage its scale and digital capabilities to continue its journey of creating an end-to-end digital supply chain. Following completion of the JD.com strategic investment, the Fung family continues to retain control of the Issuer by holding 60% of the voting shares in the holding company of the Issuer.

We are employing measures in response to the COVID-19 pandemic

The COVID-19 virus pandemic is one of the most disruptive events in recent history, and is causing an unprecedented and simultaneous supply and demand disruption globally. China, where the outbreak and disruption started, has already seen a rebound and a degree of normalization of supply and demand, although this continues to be affected by localized re-emergences of the virus. However, the slowdown of global demand, coupled with shut-down in multiple production countries, are causing major disruption to global supply chains. Impact is still not known but this is resulting in a major uncertainty in the global economy.

We have been closely monitoring the COVID-19 pandemic situation and have implemented contingency plans and actions by leveraging our deep global diversified network. We believe our existing network positions us strongly to help our customers mitigate this supply chain disruption.

To date, we have taken the following actions:

- setting up a global crisis management team to ensure global supply chain operations, business continuity, as well as health and safety of staff;
- implementing work-from-home measures and using various digital technology ensuring that no material operations were disrupted;
- coordinating with vendors and suppliers to minimise delays of shipments from various production countries;
- providing regular and timely COVID-19 updates regarding supply chain to customers based on our local on-the-ground presence;
- reducing all non-essential expenses and capital expenditures; restructuring staffs to right size the Issuer to improve efficiency and effectiveness; and
- accelerating the 3D digital product adoption at customers to ensure continuation of product development cycle for products to be made for the next seasons.

Our expected financial performance for the six months ended 30 June 2020

We are in the process of preparing our financial results for six months ended 30 June 2020. Set forth below are preliminary estimates of certain financial results that, based on available information to date, we expect to report as at and for the six months ended 30 June 2020.

The data presented below is preliminary and unaudited, based upon our estimates, and subject to further internal review by our management and compilation of actual results. We have provided ranges for this data primarily because our closing procedures for the financial results for the six months ended 30 June 2020 are not yet complete. Our management's estimates are based upon information currently available from our businesses. While we expect that our results will be within these ranges and/or consistent with these estimates, our actual results may differ materially from these preliminary estimates and may not reflect the Issuer's financial condition, results of operations and results for the full fiscal year. All of the information

presented below has been prepared by and is the responsibility of our management. Our auditor, PricewaterhouseCoopers, has not audited, reviewed, compiled, or performed any procedures with respect to our accompanying preliminary estimates, and accordingly does not express an opinion or any other form of assurance with respect to this information. Consequently, the data presented below should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results. In addition, the data presented below has not been independently verified and no representation or warranty, express or implied, is made or given by or on behalf of the Managers and no reliance should be placed on, the accuracy, completeness or fairness of the information or opinions contained in this presentation. No representation as to the sufficiency and accuracy of such financial statements is or has been made and any obligation to update, or to announce publicly any revision to, any of the preliminary estimates contained in this presentation to reflect actual results is disclaimed. The Managers disclaim any liability assumed by any data to the fullest extent permitted by law.

We operate through the business lines below:

1. **Supply Chain Solutions (“SCS”)** – which consists of strategic supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control for brands and retailers, with a diverse customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs.
2. **Onshore Wholesale** – which consists of operating as an onshore supplier in the Americas, Europe and Asia, supplying apparel and hard goods to largely the same customer base as the SCS business.
3. **Logistics (the “Logistics Business”)** – which comprises Asia-focused in-country logistics business and the global freight management business.

SCS and Onshore Wholesale collectively are referred to as the “**Trading Business**”

- Turnover is expected to be in the range of US\$3,300 million to US\$3,450 million for the six months ended 30 June 2020, a 36% to 38% decrease compared to US\$5,356 million for the same period in 2019, primarily due to the COVID-19 impact on the U.S. and European retail sectors, which negatively impacted our Trading Business. Our Asia-based Logistics Business has shown resilience with total turnover largely flat as compared to the same period in 2019, with solid performance in China during the second quarter of 2020.
- Core operating profit (“**COP**”)² is expected to be in the range of US\$10 million to US\$15 million for the six months ended 30 June 2020, a 86% to 90% decrease compared to US\$105 million for the same period in 2019, primarily due to the reduction in turnover of the Trading Business. There organization efforts implemented in the past year have generated meaningful results with associated cost reductions which partially offset the negative impact from the Turnover reduction. We have accelerated our productivity drive and reorganization efforts to significantly reduce costs further during the second quarter of 2020, which is expected to yield incremental benefits for the second half of 2020 and beyond. We will also use the “zero-based” approach to further restructure our Company to optimize our size and operations to maintain long-term sustainable cash flows and profitability.
- EBITDA^{1,2} is expected to be in the range of US\$120 million to US\$125 million for the six months ended 30 June 2020, a 44% to 46% decrease compared to US\$222 million for the same period in 2019. While our corporate overheads are relatively fixed in nature to support our global network and our listing status (up until 27 May 2020), we also started to implement initiatives to reduce our corporate overheads post Privatization to bring in additional operating leverage to us.

¹ EBITDA represents Core Operating Profit (COP) adjusted for depreciation and amortization, employee share award & share option expenses and other non-cash expenses.

² Core operating profit and depreciation and amortization reflected the impacts from the capitalized leases on the adoption of new accounting standard, HKFRS 16.

- Turnover for our Trading business is expected to be in the range of US\$2,750 million to US\$2,850 million for the six months ended 30 June 2020, a 41% to 43% decrease compared to US\$4,810 million for the same period in 2019. Turnover for the SCS business is expected to be in the range of US\$2,300 million to US\$2,350 million for the six months ended 30 June 2020, a 43% to 44% decrease compared to US\$4,144 million for the same period in 2019, primarily due to the impact of COVID-19 on customers, in particular in the US, with some customers completely stopping shipments during the month of April due to store closures. Many of the customers have gradually resumed shipments starting in May. However, bankruptcies of certain customers and proactive exits from other non-strategic customers have further negatively impacted our turnover. Due to a flight to quality by our customers and our ability to manage the global supply chain during the pandemic, we have also achieved market share gains with some key customers and have won new customers during the same period. Our efforts in further strengthening our operational excellence and customer engagement have also begun to pay off.
- Turnover for the Onshore Wholesale business is expected to be in the range of US\$450 million to US\$500 million for the six months 30 June 2020, a 25% to 32% decrease compared to US\$666 million for the same period in 2019. The Onshore Wholesale business has shown a stronger resilience to COVID-19 as a significant portion of its customers are for grocery related retailers, which experienced higher footfall traffic during the pandemic.
- COP for the Trading business (SCS plus Onshore Wholesale) is expected to be an operating loss within the range of US\$(27) million to US\$(30) million for the six months ended 30 June 2020, as compared to US\$62 million profit for the same period in 2019. Our transformational changes with the establishment of a strengthened, country-centric sourcing and production platform, as well as customer-focused account management efforts have begun to yield results. With our continued efforts to optimize the size of our organization, and enhance our operating efficiency and productivity through technology and process improvement, we achieved a reduction of over 20% in operating costs for our Trading business during the six months ended 30 June 2020 as compared to the same period in 2019.
- Our Asia-focused Logistics business continued to deliver top line performance and profitability despite the challenging and highly competitive market conditions. Turnover for our Logistics business is expected to be in the range of US\$550 million to US\$600 million for the six months ended 30 June 2020, which is in the range of a slight 2% decrease to a 7% increase compared to US\$563 million for the six months ended 30 June 2019. China maintained its profitable momentum, especially in e-logistics, which benefited from the increase in e-commerce activities which led to a slight increase in our total in-country logistics turnover for the six months ended 30 June 2020 as compared to the same period in 2019 in spite of China's shut-down during the first two months of 2020. Our global freight management business also experienced some rebound in global freight activities during the second quarter of 2020, with a modest decline in turnover for the six months ended 30 June 2020 as compared to the same period in 2019.
- COP for our Logistics business is expected to be in the range of US\$38 million to US\$42 million for the six months ended 30 June 2020, a 2% to 12% decrease compared to US\$43 million for the same period in 2019. Our Asia-based Logistics business, with a strong focus in China, has allowed our Logistics business to experience a solid recovery during the second quarter of 2020 when the COVID-19 situation in China improved. We have continued to win new business and increase market share during 2020 as customers look for high quality and reliable logistics services providers.

As at 30 June 2020, short-term debt (which comprises short-term bank loans) is expected to be in the range of US\$385 million to US\$395 million, long-term bank loans are expected to be approximately US\$180 million. The bank loans balance increased from US\$305 million in 2019 to be in the range of US\$565 million to US\$575 million, primarily to provide temporary funding for increased working capital needs under the impact of COVID-19. The total bond balance had correspondingly decreased from US\$871 million in 2019 to approximately US\$500 million as at 30 June 2020, resulting in over US\$100 million reduction in total borrowing during the six months ended 30 June 2020. Our total equity is expected to be approximately US\$2,020 million, which comprised shareholders' funds attributable to shareholders of approximately US\$1,175 million (before accounting for US\$100 million strategic investment from JD.com announced on 31 July 2020), holders of perpetual capital securities of approximately US\$650 million, and minority

interests of approximately US\$195 million. As a result of the repayment of the US\$375 million bonds due in May 2020, and the temporary funding of working capital to maintain the supply chain funds flow, our cash and bank balances are expected to be in the range of US\$370 million to US\$390 million as at 30 June 2020 (before accounting for US\$100 million strategic investment from JD.com announced on 31 July 2020).

COMPETITIVE STRENGTHS

Our key competitive strengths include:

- Global scale and efficiency
- End-to-end sourcing solution for brands and retailers
- Flexibility and risk diversification
- Long standing customer relationships
- Global supplier network and long-term supplier relationships
- Market leading product design and development capabilities
- Experienced management team with proven track record
- Solid financial performance during difficult trading conditions
- Advanced technology infrastructure and applications

BUSINESS STRATEGY

Our key business strategies include:

- Leverage our scale and scope
- Focus on execution and operational excellence
- Invest in our end-to-end digitalization platform
- Organic growth
- Selective and flexible expansion of our global sourcing business
- Increase provision of services to vendors
- Continuing to be asset light
- Expanding logistics businesses in Asia

SUMMARY OF THE PROGRAMME

The following summary is a brief summary of the programme. For a more detailed description of the terms of the Notes and the Securities, see “Terms and Conditions of the Notes” and “Terms and Conditions of the Securities (as applicable). Capitalised terms used herein and not defined have the meanings given to them in “Terms and Conditions of the Notes” and “Terms and Conditions of the Securities” (as applicable).

Issuer:	Li & Fung Limited.
Legal Entity Identifier Code:	254900B5ACVOJC6VNM71
Description:	Medium Term Note and Perpetual Securities Programme.
Size:	Up to US\$2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time. The Issuer may increase the aggregate nominal amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers:	Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited.
Dealers:	The Arrangers, Bank of China (Hong Kong) Limited, DBS Bank Ltd., Goldman Sachs (Asia) L.L.C., Mizuho Securities Asia Limited, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, Standard Chartered Bank, and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Instruments. References in this Offering Circular to “ Dealers ” are to all persons appointed as a dealer in respect of one or more Tranches or the Programme.
Certain Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Instruments and the distribution of offering material relating to the Instruments, see the section on “ <i>Subscription, and Sale</i> ” below. Further restrictions may apply in connection with any particular Series or Tranche of Instruments.
Trustee:	Citicorp International Limited.
Principal Paying Agent, Paying Agent and Transfer Agent:	Citibank, N.A., London Branch.
Registrar:	Citibank, N.A., London Branch.
Method of Issue:	The Instruments may be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a “ Series ”) and each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche will be completed in the Pricing Supplement.

Issue Price:	Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Clearing Systems:	Clearstream, Euroclear and in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Principal Paying Agent, the Trustee and the Relevant Dealer.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Instruments may be issued in any currency agreed between the Issuer and the Relevant Dealer.
Specified Denomination:	Instruments will be issued in such denominations as may be agreed between the Issuer and the Relevant Dealer save that the minimum denomination of each Instruments will be such as may be allowed or required from time to time by the central banks (or equivalent body) or any laws or regulations applicable to the relevant currency (see “Certain Restrictions” above).
Withholding Tax:	All payments of principal, premium (if applicable), distribution and interest in respect of the Instruments will be made free and clear of withholding taxes of Bermuda or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding is required by law. In that event, the Issuer shall (subject to the Note Conditions and Security Conditions, as applicable) pay such additional amounts as will result in the holders of the relevant Instruments receiving such amounts as they would have received in respect of such Instruments had no such withholding been required.
Governing Law:	The Instruments, the Trust Deed and the Agency Agreement, and any non-contractual obligations arising out of or in connection with them, will be governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Security Condition 4 and certain clauses of the Trust Deed relating to subordination shall be governed by, and construed in accordance with, Bermuda law.

Listing and Admission to Trading: Approval-in-principle has been received from the SGX-ST for permission to deal in, and the quotation for, any Instruments that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Official List of the SGX-ST. In addition, at the relevant time of issue of the Instruments which are agreed at or prior to the time of issue to be listed on the Official List of the SGX-ST, a separate application will be made to the SGX-ST for the permission to deal in and quotation of such Instruments on the Official List of the SGX-ST. Such permission will be granted when such Instruments have been admitted to the Official List of the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST will be approved. The approval in-principle from, and admission to the Official List of the SGX-ST and quotation of any Instruments on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Group, the Programme and/or such Instruments. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Instruments is approved, such Instruments listed on the SGX-ST will be traded on the SGX-ST in a board lot size of at least S\$200,000 (or its equivalent in other currencies).

The Instruments may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the Relevant Dealers in relation to each Series of Instruments. The Pricing Supplement relating to each Series of Instruments will state whether or not the Instruments of such Series will be initially listed on any stock exchange(s) and, if so, on which stock exchange(s) the Instruments are to be initially listed. Unlisted Series of Instruments may also be issued pursuant to the Programme.

THE NOTES

Status of Notes: The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. See “*Terms and Conditions of the Notes — Status of the Notes*”.

Maturities: Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer and the Relevant Dealers.

Form of Notes: The Notes will be issued in bearer or registered form as described in “*Form of the Pricing Supplement in relation to Notes*”. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes: Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer and the Relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as specified in the relevant Pricing Supplement.

Floating Rate Notes:

Floating Rate Notes will bear interest payable in arrear and determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) by reference to LIBOR, EURIBOR or HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or
- (iii) on such other basis as may be agreed between the Issuer and the Relevant Dealer.

Interest periods will be specified in the relevant Pricing Supplement.

Zero Coupon Notes:

Zero Coupon Notes (as defined in “*Terms and Conditions of the Notes*”) may be issued at their nominal amount or at a discount to it and will not bear interest.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in “*Terms and Conditions of the Notes*”) will be made in such currencies, and based on such rates of exchange as the Issuer and the Relevant Dealer may agree and as may be specified in the relevant Pricing Supplement.

Interest Periods and Interest Rates:

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

Partly Paid Notes:

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the relevant Pricing Supplement.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the Relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Notes having a maturity of less than one year are subject to certain restrictions on their denomination and distribution. See “Selling Restrictions — United Kingdom”.

Optional Redemption:

Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement and subject to Note Condition 9.

Tax Redemption:

Notes will be redeemable at the Issuer’s option prior to maturity for tax reasons as described in Note Condition 9.

Negative Pledge:

The Notes will contain a negative pledge provision, each as described in Note Condition 5.

Cross Default:

The Note Conditions will contain a cross default provision as described in Note Condition 13.

THE SECURITIES**Status of the Securities:**

The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Obligations of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in Security Condition 4.

Ranking of claims in respect of the Securities:

In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) (“**Issuer Notional Preference Shares**”) having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security was entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up were an amount equal to the principal amount of the relevant Security (or the Make Whole Amount if applicable) together with accrued and unpaid Distributions (including any Arrears of Distributions or any Additional Distribution Amount (each as defined Security Condition 5(d)(iv))).

Maturity Date:

The Securities are perpetual securities in respect of which there is no maturity date.

Form of Securities:

The Securities will be issued in registered form only.

Distribution Basis:

Subject to Security Condition 5(a), the Securities confer a right to receive distributions (each a “**Distribution**”) from the Distribution Commencement Date at the Rate of Distribution (as specified in the relevant Pricing Supplement) in accordance with Security Condition 5. Subject to Security Condition 5(d), Distribution shall be payable in arrear on each Distribution Payment Date.

Distribution Deferral:

The Issuer may, at its sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Holders unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred.

Compulsory Distribution Payment Event:

A Compulsory Distribution Payment Event occurs if either or both of the following criteria are met:

- (a) a dividend, distribution or other payment is declared, paid or made on any Relevant Obligations (Pusher) (as defined in the applicable Pricing Supplement) (other than a payment declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants); or

- (b) the Issuer redeems, reduces, cancels, buys-back or acquires for any consideration any of its Relevant Obligations (Pusher) (except for a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants).

No Obligation to Pay:

The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Security Condition 5(d)(i) and Condition 5(d)(ii).

Cumulative Deferral:

Any distribution deferred pursuant to Security Condition 5(d) shall constitute “**Arrears of Distribution**”. The Issuer may, at its sole discretion, elect to defer further any Arrears of Distribution by complying with the relevant notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to Security Condition 5(d) except that Security Condition 5(d)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall accrue additional distribution amounts at the Distribution Rate as if it constituted the principal of the Securities and the amount of such additional distributions accrued (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable pursuant to Security Condition 5 and shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of Security Condition 5. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

**Satisfaction of Arrears of
Distribution by payment:**

The Issuer:

- (A) may satisfy any Arrears of Distribution and Additional Distribution Amount (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Security Condition 17), the Trustee and the Principal Paying Agent not more than 20 nor less than 10 business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice); and

(B) in any event shall satisfy any outstanding Arrears of Distribution deferred in accordance with the Terms and Conditions of the Securities (in whole but not in part, and including any Additional Distribution Amount) on the earliest to occur of:

1. the next Distribution Payment Date falling immediately after a breach of Security Condition 5(d)(i);
2. the date on which the Securities are redeemed at the option of the Issuer pursuant to Security Condition 6(b);
3. a Special Event Redemption Date; and
4. the Winding-Up of the Issuer.

**Restrictions in the case of an
Optional Deferral:**

If the Dividend Stopper is specified in the Pricing Supplement as applicable, then if on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Security Condition 5(d)(i), the Issuer shall not

- (a) declare, pay or make any dividends, distributions or other payments on, and will procure that no dividend, distribution or other payment is declared, paid or made on any of its Relevant Obligations (Stopper) (except in relation to the Parity Obligations of the Issuer, on a pro-rata basis), save that such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
- (b) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Relevant Obligations (Stopper) (except in relation to the Parity Obligations of the Issuer, on a pro-rata basis), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants,

in each case, unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts or (ii) is permitted to do so by an Extraordinary Resolution of the Holders.

Redemption at the Option of the Issuer:

The Securities may be redeemed at the option of the Issuer (either in whole or in part to the extent specified in the relevant Pricing Supplement and subject to Security Condition 6(c)) on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Securityholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities or, as the case may be, the Securities specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

Tax Redemption:

The Securities will be redeemable at the Issuer's option for tax reasons as described in Security Condition 6(b).

Redemption upon a Capital Event:

If the Capital Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at the option of the Issuer in whole, but not in part, as described in Security Condition 6(c), if, immediately before giving such notice, the Issuer satisfies the Trustee that an amendment, clarification or change has occurred in the rules of relevant Rating Agencies or any of their respective successors to the rating business thereof, which amendment, clarification or change results in a lower equity credit for the Securities than the equity credit assigned on the Issue Date.

Redemption upon an Accounting Event:

If the Accounting Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at the option of the Issuer in whole, but not in part, as described in Security Condition 6(e), if, immediately before giving such notice, the Issuer satisfies the Trustee that as a result of any changes or amendments to HKFRS) or any other accounting standards that may replace HKFRS for the purposes of the consolidated financial statements of the Issuer (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

Limited Rights to Institute Proceedings:

The right of the Trustee or any Securityholder to institute Winding-Up proceedings is limited to certain circumstances. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Security Condition 5(d).

Redemption in the case of minimal outstanding amount:

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, as described in Security Condition 6(f), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with Security Condition 16).

Right of Securityholders:

No Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up of the Issuer or to prove or claim in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove or claim in such Winding-Up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in Security Condition 14.

Proceedings for Winding-Up:

Upon (i) an order being made or an effective resolution being passed for the Winding-Up of the Issuer or (ii) the Issuer failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Security Condition 13(d), institute proceedings for the Winding-Up of the Issuer and/or prove and/or claim in the Winding-Up of the Issuer for the principal amount of the Securities (or the Make Whole Amount if applicable) together with Distribution, Arrears of Distribution and any Additional Distribution Amount accrued to the day prior to the commencement of the Winding-Up.

SELECTED FINANCIAL INFORMATION OF THE GROUP

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The summary consolidated financial information for the years ended 31 December 2017, 2018 and 2019, set forth below is derived from the audited consolidated financial statements of the Group for the years ended 31 December 2018 and 2019 which have been audited by PricewaterhouseCoopers, Certified Public Accountants, and should be read in conjunction with the audited consolidated financial statements of the Group for the years ended 31 December 2018 and 2019, including the notes thereto, which are included elsewhere in this Offering Circular.

The Group has adopted HKFRS 16, “Leases” effective from 1 January 2019. 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 of the consolidated financial statements of the Group for the year ended 31 December 2019 have been restated. As such, the consolidated financial information as at and for the year ended 31 December 2017 may not be comparable to the consolidated financial information as at and for the years ended 31 December 2018 and 2019.

Details of impact and the adoption of HKFRS 16 have been included in note 1.1(A) to the audited consolidated financial statements of the Group for the year ended 31 December 2019.

On 31 January 2018, the independent shareholders of the Group approved in a special general meeting to divest the three product verticals (furniture, beauty and sweaters) and the disposal of the three product verticals was completed on 3 April 2018. The financial results of the three product verticals for the years ended 31 December 2018 and 2019 were presented as Discontinued Operations.

The Group’s audited consolidated financial statements were prepared and presented in accordance with HKFRS in the respective years.

Summary income statement information

	Audited		
	Twelve months ended 31 December		
	2017	2018	2019
	US\$'000	US\$'000	US\$'000
	(Restated)		
Continuing Operations			
Turnover.....	13,534,209	12,700,744	11,413,312
Cost of sales.....	(12,185,061)	(11,395,406)	(10,221,721)
Gross profit.....	1,349,148	1,305,338	1,191,591
Other income.....	37,124	36,556	27,745
Total margin.....	1,386,272	1,341,894	1,219,336
Selling and distribution expenses.....	(395,279)	(410,243)	(384,973)
Merchandising and administrative expenses.....	(635,141)	(636,516)	(606,816)
Core operating profit.....	355,852	295,135	227,547
Gain on remeasurement of contingent consideration payable.....	31,492	8,948	621
Amortisation of other intangible assets.....	(23,327)	(29,136)	(26,534)
Non-recurring reorganisation costs.....	(33,945)	(14,991)	(46,825)
Other non-recurring operating expenses.....	—	(2,656)	(6,491)
Operating profit.....	330,072	257,300	148,318
Interest income.....	12,261	10,608	11,531
Interest expenses.....			
Cost on early settlement of long-term notes.....	—	—	(7,640)
Non-cash interest expenses.....	(3,284)	(15,045)	(15,302)
Cash interest expenses.....	(66,477)	(55,433)	(66,844)
	(69,761)	(70,478)	(89,786)
Share of net profits/(losses) of associated companies and joint venture.....	1,898	205	(36)
Profit before taxation.....	274,470	197,635	70,027
Taxation.....	(40,830)	(29,855)	(15,756)
Profit for the year from Continuing Operations.....	<u>233,640</u>	<u>167,780</u>	<u>54,271</u>
Discontinued Operations			
Loss for the year from Discontinued Operations.....	(543,045)	(139,142)	—
Net (loss)/profit for the year.....	<u>(309,045)</u>	<u>28,638</u>	<u>54,271</u>
Attributable to:			
Shareholders of the Company.....	(374,573)	(13,308)	16,748
Holders of perpetual capital securities.....	64,125	46,125	34,125
Non-controlling interests.....	1,043	(4,179)	3,398
	<u>(309,405)</u>	<u>28,638</u>	<u>54,271</u>
Attributable to Shareholders of the Company arising from:			
Continuing Operations.....	170,418	122,836	16,748
Discontinued Operations.....	(544,991)	(136,144)	—
	<u>(374,573)</u>	<u>(13,308)</u>	<u>16,748</u>
Earnings/(losses) per share for profit/(losses) attributable to the Shareholders of the Company during the year/period			
— Basic from Continuing Operations.....	15.8 HK cents	11.4 HK cents	1.6 HK cents
(equivalent to).....	2.04 US cents	1.47 US cents	0.20 US cents
— Basic from Discontinued Operations.....	(50.6) HK cents	(12.6) HK cents	N/A
(equivalent to).....	(6.52) US cents	(1.63) US cents	N/A
— Diluted from Continuing Operations.....	15.7 HK cents	11.2 HK cents	1.6 HK cents
(equivalent to).....	2.02 US cents	1.45 US cents	0.20 US cents
— Diluted from Discontinued Operations.....	(50.1) HK cents	(12.5) HK cents	N/A
(equivalent to).....	(6.46) US cents	(1.60) US cents	N/A

Summary balance sheet information

	Audited		
	As at 31 December		
	2017	2018	2019
	US\$'000	US\$'000 (Restated)	US\$'000
Non-current assets			
Intangible assets	2,347,011	2,321,294	2,298,948
Property, plant and equipment	208,221	201,973	195,876
Right-of-use assets	—	391,970	383,802
Prepaid premium for land leases	67	16	15
Associated companies	12,393	5,268	6,274
Joint venture	996	374	—
Available-for-sales financial assets	4,338	—	—
Financial assets at fair value through other comprehensive income	—	4,601	2,737
Other receivables, prepayments and deposits	27,738	26,663	25,421
Deferred tax assets	17,456	15,644	26,948
	<u>2,618,220</u>	<u>2,967,803</u>	<u>2,940,021</u>
Current assets			
Inventories	147,803	205,877	156,644
Due from related companies	463,163	708,862	613,061
Trade and bills receivable	1,148,560	1,040,236	1,017,189
Other receivables, prepayments and deposits	150,252	177,436	140,782
Derivative financial instruments	—	3,985	—
Cash and bank balances	348,940	612,391	932,167
	<u>2,258,718</u>	<u>2,748,787</u>	<u>2,859,843</u>
Assets classified as held for sale	<u>1,641,065</u>	<u>—</u>	<u>—</u>
Current liabilities			
Due to related companies	124	37,809	8,181
Derivative financial instruments	5,355	—	314
Bank advances for discounted bills	1,724	—	—
Trade and bills payable	1,733,661	1,736,817	1,503,684
Accrued charges and sundry payables	468,089	585,897	544,015
Taxation	43,908	30,267	20,959
Current portion of long-term notes	—	—	374,361
Short-term bank loans	22,970	272,951	4,906
Purchase consideration payable for acquisitions	42,166	819	—
Lease liabilities	—	129,464	117,437
	<u>2,317,997</u>	<u>2,794,024</u>	<u>2,573,857</u>
Liabilities associated with assets classified as held for sale	<u>466,570</u>	<u>—</u>	<u>—</u>
Net current assets/(liabilities)	<u>1,115,216</u>	<u>(45,237)</u>	<u>285,986</u>
Total assets less current liabilities	<u>3,733,436</u>	<u>2,922,566</u>	<u>3,226,007</u>
Financed by:			
Share capital	13,574	13,633	13,686
Reserves	1,734,172	1,188,662	1,250,520
Shareholders' funds attributable to the Company's			
Shareholders	1,747,746	1,202,295	1,264,206
Holders of perpetual capital securities	1,158,687	655,687	655,687
Written put option on non-controlling interests	(67,000)	—	—
Non-controlling interests	74,262	(3,150)	192,893
Total equity	<u>2,913,695</u>	<u>1,854,832</u>	<u>2,112,786</u>
Non-current liabilities			
Long-term notes	752,432	751,405	496,893
Purchase consideration payable for acquisitions	19,417	8,141	4,823
Lease liabilities	—	291,164	298,265
Long-term bank loans	—	1,034	300,000
Other long-term liabilities	29,034	2,705	1,612
Post-employment benefit obligations	14,165	11,592	9,633
Deferred tax liabilities	4,693	1,693	1,995
	<u>819,741</u>	<u>1,067,734</u>	<u>1,113,221</u>
	<u>3,733,436</u>	<u>2,922,566</u>	<u>3,226,007</u>

Note: The Group has adopted HKFRS16 in 2019. Comparatives for year ended 31 December 2018 have been restated accordingly. The financial results prior to 2018 have not been restated.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer and the Group believe that the following factors may affect their ability to fulfil their obligations under the Instruments issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer and the Group are not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer and the Group believe may be material for the purpose of assessing the market risks associated with the Instruments issued under the Programme are also described below.

The Issuer and the Group believe that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the inability of the Issuer to pay principal, interest (if any), distribution (if any) or other amounts or fulfil other obligations on or in connection with any Instruments may occur for other reasons and the Issuer and the Group do not represent that the statements below regarding the risks of holding the Instruments are exhaustive.

RISKS RELATING TO THE GROUP

Reliance on key personnel

Our effective operation is, to a certain extent, dependent upon the expertise and experience of our key management personnel, including Dr. William Fung Kwok Lun (Group Non-executive Chairman), Mr. Spencer Theodore Fung (Group Chief Executive Officer), Mr. Joseph C. Phi (Group President and President of LF Logistics) and Mr. Edward Lam Sung Lai (Chief Financial Officer), the members of our Board of Directors and the members of senior management. If any such key management personnel ceases to participate in our management, our business operations and financial position may be adversely affected.

Failure to successfully acquire or integrate businesses

We have acquired companies or businesses to strengthen key areas of our existing business and to acquire companies or businesses when strategic opportunities arise. There are risks and difficulties associated with the execution of acquisitions. Such acquisitions are opportunistic and therefore not readily identifiable, and the lead time for discussions and negotiations to conclude a transaction may extend over several years. The execution of acquisitions and the subsequent integration of the businesses may also place additional demands on management attention and time. Difficulties may be encountered in integrating the acquired businesses, including difficulties in retaining experienced personnel and making adjustments to distribution, operation and management procedures. In addition, there may be latent liabilities or issues with the acquired businesses that are difficult or impossible to identify through the due diligence process prior to completion of the acquisition.

There can be no assurance that any future acquisitions can be executed and integrated successfully, which may in turn adversely affect our business, results of operations and financial position.

Failure to successfully monetise our digitalization projects

From the perspective of the entire Three-Year Plan (2017 — 2019) we have made encouraging progress in our digitalization project, especially in 3D virtual design, and while we expect our digital offering to be core to our future services, these projects remain at an early stage of development. There can be no assurance that we will be able to fully monetise all of our digitalization projects, and if we are not successful in developing any of our digitalization projects or in selling such digital services to our customers, we may not achieve the returns we have anticipated from our investment and in turn, this may have an adverse effect on our business, operational results and financial position.

Reliance on the Group's information technology systems

The Group relies extensively on its technology infrastructure and applications for both communications and all supply chain activities, and as such has invested in ancillary network lines providing spare capabilities in the event of any network point failure. In addition, the Group has onsite and offsite application backups/disaster recovery platforms and procedures. The reliability and capacity of information systems are critical. Despite our preventative efforts, our systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses, power outages and other technical malfunctions. Any disruptions affecting our information systems, or any delays or difficulties in transitioning to new systems or in integrating them with current systems, could have a material adverse impact on our business. In addition, our ability to continue to operate our business without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans.

Interests of major shareholders

The deemed interests of Dr. Victor Fung Kwok King (through a trust of which HSBC Trustee (C. I.) Limited is the trustee) and the indirect interests of Dr. William Fung Kwok Lun in the Company presently account for over 30%, of the issued share capital of the Company. They are also Group Chairman of Fung Group and Group Non-executive Chairman, respectively. As a result and subject to applicable rules and regulations, they have the ability to influence certain matters submitted to the Company's shareholders for approval and to exert a controlling influence over the Company's management and affairs, including in relation to overall strategic and investment decisions. Material transactions involving any conflict of interest of the major shareholders are subject to approval by disinterested directors. 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. There is no assurance that the interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun will always coincide with the interests of our other shareholders or directors of the Company or of the holders of the Instruments. Furthermore, if Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun ever decide to dispose of or reduce their shareholdings in the Company, there is no assurance that such sale may not occur in the future and such disposal may adversely impact us.

Fluctuations in foreign exchange rates

We operate a global business and are exposed to currency risk on purchases and borrowing that are denominated in a currency other than U.S. dollars. In addition, we are exposed to translation risk arising from the preparation of our financial statements in U.S. dollars.

Most of our cash balances are deposits in Hong Kong dollars and U.S. dollars with major global financial institutions, and most of our borrowings are denominated in U.S. dollars. Our turnover and payments are transacted mainly in the same currency, and are predominantly in U.S. dollars. There are small portions of sales and purchases transacted in different currencies for which we arrange hedging by means of foreign exchange forward contracts. There can be no assurance that these hedging arrangements will be effective at fully hedging our foreign exchange rate exposure.

Since our functional currency is in U.S. dollars, we are subject to exchange rate exposure from translation of foreign operations' local results to U.S. dollars at average rate for the period for group consolidation. Our net equity investments in non- U.S. dollar denominated businesses are also subject to unrealised translation gain or loss on consolidation. Fluctuation of relevant currencies against the U.S. dollars will result in unrealised gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity and will impact our results of operations and financial position.

The recognition of gains on remeasurement of contingent consideration payable relating to our acquisitions is uncertain and likely to fluctuate from time to time and may decrease significantly in the future, which may adversely impact our profitability

Our results of operations include gain on remeasurement of contingent consideration payable relating to our acquisitions which are based on estimates of the future performance of acquired businesses. These remeasurement gains reflected the amount that we would no longer be required to pay based on contractual arrangements with the seller or management estimates according to the terms and conditions of the purchase agreement. Such gains or losses on remeasurement of contingent consideration payable do not change our cash position and, therefore, do not increase or decrease our liquidity despite the increased or decreased profit. Therefore, such gains would not generate a flow of funds from which dividends could be paid. The amount of remeasurement gain has been, and will continue to be, subject to estimates of the performance of the underlying acquired businesses and factors outside of our control.

RISKS RELATING TO THE GROUP'S BUSINESS

Key market concentration and customer retention

We have significant geographic concentration as the U.S. market as a whole represented 65% of our turnover for the year ended 31 December 2019. Accordingly, deterioration of the economic condition in the U.S. affecting consumer confidence and spending and leading to a general reduction in disposable income may in turn adversely affect our business, operational results and financial position.

For the year ended 31 December 2019, our largest customer constituted approximately 17% of total turnover of the Group. We have had long-term relationships with many of our customers but the commercial arrangements must be renewed on a regular basis. If our largest customer or other key customers terminate or fail to renew their commercial arrangements with us and we fail to find other comparably-sized customers, it may adversely affect our business, results of operations and financial position.

Reliance on global shipping industry

We are a global sourcing company and rely on third party shipping to deliver our products to customers. The global shipping industry has experienced significant fluctuations over the last decade. Due to increasing world trade volumes prior to the global financial crisis, shipping companies invested heavily in new freight capacities. The global financial crisis in 2008 and the more recent trade disputes between the US and China resulted in sharp fluctuations in demand. The resulting imbalance in supply particularly as the ships ordered in the last decade are delivered and an extended period of subdued demand for goods has placed severe strain on many shipping companies. The recent outbreak of COVID-19 pandemic and policies implemented by governments to deter the spread of the disease, including but not limited to the international travel restrictions, have also caused significant disruptions to the global shipping industry which may adversely affect our business, results of operations and financial position. See also *"Risk Factors – Risks relating to the Group's Business – Outbreak of COVID-19 and further outbreaks of contagious diseases"*.

Freight lines are also trying to cut costs and are increasing orders for ships with more fuel-efficient technologies. However, sharply decreasing metal prices have reduced the value of scrapping older vessels. The global shipping industry has experienced severe disruptions as individual companies were no longer able to remain in business. Any future issues with any of our third-party shipping providers may have an adverse effect on our business. For our principal business, dealing with distressed shipping lines can result in potential delays in the delivery of our goods to customers. Any significant disruption to the timely delivery of our goods may adversely affect our business operations, reputation and financial position.

Adverse developments in global trade issues

We are generally exposed to global trade issues affecting industries (and, in particular, the textiles industry) in countries where we source or exports goods. We are therefore impacted by actual and threatened trade protectionism borne out of the current economic environment globally and issues between individual countries. Even though our diversified sourcing platform is designed to withstand sudden interruptions in the supply chain and provide the flexibility to shift production among countries, any potential cessation, fluctuation or disturbance of world trade may still adversely affect our business operation and financial position. Our reliance on the U.S. as an export market exposes us to changes in U.S. trade policy and, in particular, U.S. trade policies towards China. The U.S. and China have recently been involved in disputes over trade barriers that have escalated into a trade war between the countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. In 2020, in part in response to the implementation of the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative

Region (the “**Hong Kong National Security Law**”), the U.S. has also taken further steps, including without limitation by way of the submission of the 2020 Hong Kong Policy Act Report and the passing of the Hong Kong Autonomy Act, to sanction certain individuals, companies and organisations in China and Hong Kong as well as restricting the export of certain products to China and Hong Kong and placing limitations on certain Chinese-owned businesses from operating in the U.S. If the political relationship between the U.S. and China continues to deteriorate, this may have implications on alternatives for sourcing countries and we may have to reposition customer orders.

We do not know when or whether the two governments will resolve their differences in the ongoing negotiations. Sustained tension between the U.S. and China over trade policies could significantly undermine the stability of the global economy. Any severe or prolonged slowdown or instability may materially and adversely affect our business, operational results and financial position. In addition, as U.S. international trade policies continue to change and develop, including through the trend towards bilateral trading agreements and imposition of anti-dumping measures, there can be no assurance that we will in all cases be favourably impacted by, or be able to capitalise on opportunities created by, such developments.

Our increasing reliance on Europe and the United Kingdom, relative to the U.S., as export markets also means that we are exposed to developments in EU-China and United Kingdom-China trade relations. In recent years, trade relations between both the EU and the United Kingdom and China have gained momentum, although numerous issues remain to be resolved, including in relation to access to the Chinese market, investment conditions in the telecommunications and construction design sectors imposed by the Chinese government, and payments by Chinese companies for the use of foreign patents. The EU-China trade relationship has also in recent years been affected by issues in relation to EU anti-dumping measures against Chinese manufactured leather shoes and other products. In 2020, diplomatic relations between the United Kingdom and China have become increasingly strained following the anti-government protests in Hong Kong and the implementation of the Hong Kong National Security Law. This may in turn adversely affect the trading relationship between the United Kingdom and China. Accordingly, there can be no assurance that there will not, in the future, be developments that create or increase barriers for Chinese goods to be imported into the EU and/or the United Kingdom. Such developments may have an adverse impact on our business, operational results and financial position.

In addition, renegotiation and/or termination of existing trade agreements and agreements such as NAFTA and new multilateral trade agreements and arrangements such as The Silk Road Economic Belt and the 21st-century Maritime Silk Road initiative launched by the Chinese government and the ASEAN-Pacific Alliance Framework for Cooperation will continue to impact our business, where we source our goods and how we interact with customers.

Outbreak of the COVID-19 virus

In 2020, the COVID-2019 virus outbreak is having a significant adverse impact on global supply chains, and the Issuer expects to see further headwinds affecting its business activities.

As a result of the outbreak of the COVID-19 virus, precautionary and control measures including quarantine, travel restrictions and temporary production halts have been and continue to be implemented across the U.S., Europe, China and around the world in more than 100 countries which are relevant to our business and operations.

At a macro level, governments around the world have, and continue to, put in place measures to assist businesses and the economy, for example fiscal and monetary stimulus measures including tax cuts, direct subsidies, rate cuts, bond repurchase programs, suspension or relaxation of prudential bank capital requirements and issuance of pandemic bonds. These measures aim to contain the economic impact of the pandemic, stabilize the markets and provide liquidity easing to the markets. There is no assurance that such measures will be introduced in time or will be sufficient or effective in delivering their policy objectives. There is no assurance that these measures will be successful in containing the economic impact of the pandemic or stabilizing markets.

Notwithstanding the governmental intervention at a macro level, the further spread and continuation of the COVID-19 virus is expected to affect consumer sentiment and the overall retail environment. We expect that mid-tier, non-essential consumer goods and likely to be hit hardest and that the overall retail demand environment for years to come may also be affected. Retailers have implemented temporary store closures, discounted their goods and accumulated inventory due to weak consumer demand. Some retailers have also extended payment terms with suppliers and landlords, reduced orders for their goods, accelerated store closures or reduced near-term store expansion plans. The restricted international travel and flow of goods have also made it more difficult for retailers to source products and have made the supply chain significantly more complex.

Given the COVID-19 impact is creating more volatility and uncertainty in the global economy, our customers will likely be negatively impacted. While some retail businesses, in particular food grocery and those with an on-line presence, have been performing well, with the Asia Pacific region and especially China recovering faster than the rest of the world, a number of retailers (notably in the U.S. and the United Kingdom) have reported losses in their latest quarterly results, and some already filed for bankruptcy protection or have closed due to insolvency during the pandemic.

At the other end of the supply chain, suppliers and factories are facing many challenges due to the COVID-19 pandemic, including government-imposed lockdowns, order reductions and cancellations, and requests from customers to accept longer payment terms. Factories are being forced to lay-off workers as they operate at lower capacity and a number have closed their businesses. Some countries have imposed import or export controls to protect domestic markets and industries and to preserve supplies of certain products.

Global logistics and freight management have been and continue to be adversely affected by the COVID-19 virus outbreak with shipment delays being caused by production and transportation interruptions in many countries around the world.

The spread and impact of the COVID-19 is still developing with new outbreaks and resurgences of virus spread occurring across the globe. Governments and pharmaceutical companies and researchers around the world are dedicating significant resources and time into developing a vaccine for COVID-19. While there have been some positive developments recently, there is no assurance with regards to the availability and timing of any such vaccine. As a result, the full extent of the impact of the COVID-19 pandemic on global, regional and local economies, the duration of its effects and the likely impact on our business and operations is difficult to assess.

We have taken relevant actions to minimize the impact of the COVID-19 to operations and will continue to pay close attention to developments and evaluate the impact on the business.

However, the prolonged impact of the COVID-19, causing recession, reductions in demand or changes in consumer shopping habits, may materially and adversely affect our business, operational results and financial position.

In addition, there can be no assurance that there will not be further serious outbreaks of contagious diseases in any of our core markets in the future which could materially and adversely impact our business, operational results and financial position.

Adverse developments and conditions in key markets

The U.S., Europe and Asia are our principal export markets. The U.S., European and Asian markets represented 65%, 18% and 11%, respectively, of our turnover for the year ended 31 December 2019. Deterioration in the economic environment in the U.S., Europe or Asia, insolvency of U.S., European or Asian retailers, as well as any changes in the demand from, or shopping habits of, consumers in these markets due to reductions in their disposable income or their confidence in the economy, may materially and adversely affect our business, operational results and financial position.

Consumer purchases of retail goods generally decline during recessionary periods and other periods where disposable income is adversely affected. The demand for retail products and brands is also subject to factors including unemployment, consumer credit availability, fuel and energy prices, interest rates, consumer confidence in future economic and political conditions, perceptions of security and other macroeconomic factors.

The global retail industry has faced significant headwinds which have affected demand for brands and retail products. This in turn has impacted our business, results of operations and financial condition. There is no assurance that the macroeconomic environment and demand for retail goods will improve, which may continue to impact our business, results of operations and financial condition.

Competitive developments in the retail markets

The retail markets have experienced increased competitive pressure in recent years due to various factors, including the expanding market share of e-commerce. E-commerce represents an increasing element of retail sales particularly in the United States and often at the expense of profits of retailers. In the United States, e-commerce contributed approximately 14.9% of total retail sales in 2019¹.

At the retail level, online retailers have transformed the market, fighting for market share and competing largely on price and providing pricing transparency while traditional retailers have added online channels. This has greatly intensified price competition which coupled with a generally weak consumption market has resulted in a persistently highly-promotional marketplace and reduced margins for brands and retailers. If promotional activities by brands and retailers persist for extended periods of time or if we do not successfully adapt to the changing demands of our customers and retail consumers, it may have an adverse impact on our business, operational results and financial position.

In addition, to compete with e-commerce developments, retailers are required to hold a broader range of products and continue to adapt their method of ordering. Retailers increasingly require lower volume minimums and shorter delivery time as consumers shop online and demand timely access to a broad range of products across multiple channels. As retailers move retail sales to online channels to compete with e-commerce platforms, they will destock their store inventory to lower levels. This ongoing destocking transition is reducing customers' merchandising budgets and has negatively impacted our turnover. The increased investment in e-commerce by traditional retailers has also led to an unprecedented number of retail store closures in the US according to Coresight Research. With continued disruption in the retail landscape, we expect more store closures and bankruptcies. We will continuously review the risk profile of our customer portfolio and reduce credit risk as needed, which will further negatively impact turnover. Accordingly, the destocking trend may continue to have an adverse impact on our business, operational results and financial position.

Adverse developments and conditions in sourcing markets, including emerging market countries

We source products for our customers from more than 50 economies. These sourcing markets include the PRC, Bangladesh, Cambodia, Guatemala, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Turkey and Vietnam. Governments in emerging markets frequently impose measures in order to control factors affecting their economies such as inflation, and to effect domestic and international policies and interests. Such measures include wage and price controls, limits on imports, tariffs, exchange controls and tax policies. Further, many emerging markets have legal systems that are still developing and are untested. The outcome of proceedings with government agencies and regulators and claims brought before courts in these jurisdictions is therefore often uncertain and may limit the legal protection available to foreign entities, including our business. Such sourcing markets may also see rising labour activism which may lead to labour or workforce unrest.

¹ Source: U.S. Census Bureau

In addition, some of our sourcing markets may be prone to social or political instability, which may present unforeseen risks and challenges for our operations and could adversely affect these emerging economies or our ability to reliably and responsibly source products in these locations and have an adverse impact on the financial performance of governments and our sourcing companies in the regions. The impact on us of such risks may be increased if we are not able to locate, or we encounter difficulties in moving to, new sourcing markets.

Our business is subject to various evolving laws and regulations around the world

The services we provide are regulated by various governmental authorities around the world. A failure to comply with applicable laws and regulations and maintain appropriate authorisations could result in fines, operational restrictions or possible revocations of authority to conduct operations. New regulations or changes in existing regulations, or in the interpretation or enforcement of regulations, could require us or our customers to incur additional capital or operating expenses or modify business operations to achieve or maintain compliance.

In addition, due to the cross-border nature of our activities and the large number of countries in which we operate, we must continually monitor our compliance with anti-corruption and anti-bribery laws (including the US Foreign Corrupt Practices Act and the UK Bribery Act), other employee malfeasance regulations, anti-money laundering laws, trade control and sanctions laws and regulations, anti-money laundering laws, and antitrust and competition laws. Recent years have seen a substantial increase in global enforcement of laws, with more frequent voluntary self-disclosures by companies, industry-wide investigations and criminal and civil enforcement proceedings by the United States and other government agencies, resulting in substantial fines and penalties. Due to the increasing complexity and ever-changing requirements in the individual countries in which we operate, there can be no assurance that our internal policies or procedures will work effectively to ensure that we comply with such laws and regulations all of the time or to protect us against liability under such laws and regulations for actions taken by our employees and third-party service providers with respect to our business. As a result of any of the foregoing, our business, financial condition and results of operations could be adversely affected.

Fluctuations in the prices of raw materials and commodities

The prices for raw materials and commodities continue to fluctuate. Oil and related commodities continue to trade under market pressure although oil prices have rebounded from the low reached in 2018. As raw material sourcing plays a key part in our supply chain, the Group's business operations and financial position may be adversely affected by continued low pricing levels of raw materials and commodities.

Credit risk from our customers arising from our operating activities

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) to the extent it is available, 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. As a result of these credit risk processes, provisions made in respect of customer accounts have not materially increased from historical levels despite increasing instances of customer bankruptcies

and insolvencies. However, if more of our key customers become insolvent or settlement of customer receivables is materially delayed, and we fail to find other comparably-sized customers, our business, operational results and financial position may be adversely affected.

Global Brands Group Holding Limited (“**GBG**”), a related party 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 core operating performance 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 as well as during the first half of 2020, especially with the negative impact of COVID-19.

As at 30 June 2020, the total accounts receivable from GBG was approximately US\$570 million, an increase of over US\$35 million as compared to 31 December 2019, due to the slowdown in the settlement of accounts receivable from GBG. As a result of COVID-19, the aging profile of accounts receivable from GBG deteriorated, with approximately US\$400 million past due over 90 days.

As disclosed by GBG on 30 June 2020, GBG was in technical breach of one financial covenant related to its banking facilities. GBG has obtained a forbearance agreement from its lenders, pursuant to which the lenders had agreed not to exercise their rights under the relevant loan agreement arising from such breach until 31 July 2020. GBG has submitted a repayment proposal to the lenders and an extension of the forbearance period and replacement and/or elimination of certain bank covenants. We are closely monitoring the credit exposure to GBG and may consider alternative strategies going forward regarding the outstanding accounts receivable. If these credit risk strategies are unsuccessful and if GBG were to file for bankruptcy protection or become insolvent, our business, operational results and financial position may be adversely affected.

Reliance on third party suppliers

All of our products are sourced from third party suppliers. We do not have long-term written agreements with any of our third-party suppliers. As a result, any of these third-party suppliers may unilaterally terminate its relationship with us at any time. Any failure of these third-party suppliers to meet required quality standards could damage our relationships with our customers. In addition, the failure by these third-party suppliers to ship products to us in a timely manner could cause us to miss the delivery date requirements of our customers. The failure to make timely deliveries could cause customers to cancel orders, refuse to accept delivery of products or demand reduced prices or margin support.

We are also dependent on our third party suppliers for compliance with our policies and the policies of our licensors and customers regarding labour, environmental and safety practices employed by factories that supply products for us. Any failure by these third-party suppliers to comply with required standards or any other divergence in their practices from those generally considered ethical in developed countries, and the potential negative publicity relating to any of these events, could result in a violation by us of our licence agreements and harm us and our reputation. In addition, a third party suppliers’ failure to comply with safety or content regulations and standards could result in substantial liability and harm to our reputation.

Our business may be affected by macroeconomic events affecting global credit markets

Changes in the global credit and financial markets, including regulatory changes on banks and the wider financial sector have in recent years affected and may continue to affect the availability of credit and led to an increase in the cost of financing. In the past, a deterioration in the financial markets has contributed to a slowdown in the U.S. and the global economy, which has led, and may continue to lead, to significant declines in employment, household wealth, consumer demand and lending and as a result may adversely affect economic growth in Hong Kong, the PRC and elsewhere. In addition, during the course of 2019 and 2020, Hong Kong has experienced a protracted period of anti-government protests and violent civil disturbance which have disrupted local commerce and transport infrastructure. As a result, Fitch Ratings Inc. downgraded Hong Kong's long-term foreign-currency issuer default rating in September 2019 from AA+ to AA with a negative outlook and in April 2020 from AA to AA-. In January 2020, Moody's downgraded its rating of Hong Kong's long-term foreign-currency unsecured and unsubordinated obligations from Aa2 to Aa3 with a stable outlook.

Whilst we currently have committed facilities available that enable us to meet our current funding needs and future business expansion, we may have difficulty in the future in accessing the financial markets, which could make it more difficult or expensive to obtain funding. There can be no assurance that we will be able to continue to raise financing at a reasonable cost, or at all. We may also be subject to solvency risks of its banks and counterparts in its financial investments and arrangements. These may have an adverse effect on our business, financial condition and results of operations.

In recent years, the PRC has experienced a slowing in the rate of economic growth. Periodically, the PRC government has introduced a number of measures, including increasing and decreasing interest rates and the deposit reserve requirement of commercial banks and allowing the currency to fluctuate in a wider range. If the PRC's economic growth continues to slow down in the future, or its government discontinues the stimulus package or continues to tighten its monetary policies, our business in the PRC and its ability to implement its growth strategies in the PRC could be materially and adversely affected.

Since 2010, the global markets and economic conditions have also been periodically impacted by uncertainty relating to the ability of certain European Union Member States (including Greece, Ireland, Italy, Spain and Portugal) to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programmes and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members.

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union. On 29 March 2017, the United Kingdom gave notice under Article 50 of the Treaty ("**Article 50**") on European Union of the United Kingdom's intention to withdraw from the European Union triggering a two-year negotiation period. In November 2018, the European Union and the United Kingdom government finalised negotiations on the legally-binding withdrawal agreement and associated political declaration on their future relationship. The European Council approved the two documents on 25 November 2018. However, the two documents have to be ratified by both the United Kingdom Parliament and the European Parliament. In early 2019, the United Kingdom failed to approve ratification of the withdrawal agreement and associated political declaration and in March 2019, the European Council and the United Kingdom agreed to delay the date of the United Kingdom's withdrawal from the European Union to 31 October 2019. On 9 September 2019, legislation received royal assent requiring the United Kingdom Prime Minister to ask the European Union to extend the date of the United Kingdom's withdrawal to January 2020, if a new withdrawal deal is not agreed and approved by the United Kingdom Parliament by 19 October 2019. On 28 October 2019, the European Council agreed to further extend the deadline for the United Kingdom's withdrawal to 31 January 2020. The United Kingdom introduced a bill to ratify the withdrawal agreement which received royal assent and became law on 23 January 2020, and the European Parliament subsequently gave its consent to ratification of the withdrawal agreement on 29 January 2020. Brexit then took effect on 31 January 2020 with a transition period agreed until 31 December 2020.

Given the lack of precedent, it is unclear how the withdrawal of the United Kingdom from the European Union will after expiry of the agreed transition period affect the European Union single market and other important financial and trade relationships and how it will affect the Group. The withdrawal could, among other outcomes, disrupt the free movement of goods, services, capital and people between the United Kingdom and the European Union, undermine bilateral cooperation in key policy areas and significantly disrupt trade in the United Kingdom and the European Union markets in which we operate. Although it is not possible to predict fully the effects of the withdrawal of the United Kingdom from the European Union once the agreed transition period has expired, the uncertainty immediately thereafter could be destabilising, have a negative economic impact and increase volatility in the markets, particularly in the Eurozone. Such instability, volatility and negative economic impact could adversely affect the global economy and in turn our business, financial position and operating results, as well as our future prospects.

In addition, as a result of the uncertainty in the immediate wake of the United Kingdom referendum, the pound experienced sharp depreciation following the vote, with the pound/U.S. dollar exchange rate falling to its lowest levels since the 1980s. This significant depreciation of the pound has negatively impacted our business.

Further, as production is primarily based in emerging markets, the global supply chain is prone to uncertainty and disruption. Over the last few years, we witnessed this with riots, terrorist attacks, corruption inquiries, political scandals or military coups in Bangladesh, Indonesia, Malaysia, Thailand or Vietnam. These macroeconomic factors, or market perceptions concerning such matters, could have an adverse effect on our liquidity, which could in turn adversely impact on our business, financial position and, operating results, as well as our future prospects.

Changes in economic and political environment in the PRC and policies adopted by the PRC government

For the year ended 31 December 2019, our top sourcing country was the PRC with approximately 43% of the goods from our business sourced from the PRC. The PRC economy differs from the economies of most countries in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Although state-owned enterprises still account for a substantial portion of the PRC industrial output, in general, the PRC government is reducing the level of direct control which it exercises through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a “market economy” and enterprise reform. However, there can be no assurance that the PRC government will continue to pursue a policy of economic reform and we may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government.

Our operations and financial results could be adversely affected by changes in the political, economic and social conditions in the PRC or the relevant policies of the PRC government, such as changes in laws and regulations (or their interpretation), in particular changes in labour laws which may result in wage increases in factories, inflationary measures, changes in the rate or method of taxation, further foreign exchange restrictions and the imposition of additional import restrictions.

Uncertainties in the PRC legal system

Over the last four decades, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this, the PRC’s system of laws is not yet fully developed. Even where an adequate set of regulations exists, enforcement of such PRC regulations may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a foreign judgment. The PRC judiciary, with limited experience, in many cases creates further uncertainty as to the outcome of any litigation. In addition, interpretation of PRC statutes and regulations may be subject to government policies reflecting domestic political changes.

Our operations, and the operations of the factories from which we source goods, based in the PRC are subject to application of such laws and regulations including administrative review and approval by various national and local agencies of the PRC Government. The uncertainties of and changes occurring in the PRC’s legal and regulatory systems may adversely affect the conduct and performance of our business.

The effects of war, acts of terrorism, civil disturbance or natural disasters could adversely affect our business and results of operations

The continued threat of terrorism, heightened security measures and military action in response to acts of terrorism or civil unrest have, at times, disrupted commerce and intensified concerns regarding the United States, European and UK economies. Any further acts of terrorism or new or extended hostilities may disrupt commerce and undermine consumer confidence, which could negatively impact our sales and results of operations. In addition, during the course of 2019 and 2020, Hong Kong has experienced a protracted period of anti-government protests and violent civil disturbances which have disrupted local commerce and transport infrastructure. An escalation of such unrest may impact business confidence in Hong Kong which could in turn have an adverse effect on our operations and business. Similarly, the occurrence of one or more natural disasters, such as pandemics, hurricanes, fires, floods or earthquakes could result in the closure of one or more of our distribution centres, our corporate headquarters or a significant number of stores or impact one or more of our key suppliers. In addition, these types of events could result in increases in energy prices or a fuel shortage, temporary or long-term disruption in the supply of products, disruption in the transport of products from overseas, delay in the delivery of products to our factories, our customers or our stores and disruption in our information and communication systems. Accordingly, these types of events could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE INSTRUMENTS ISSUED UNDER THE PROGRAMME

The Instruments may not be a suitable investment for all investors.

Each potential investor in any Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to the Offering Circular or any Pricing Supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Instruments and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Instruments, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Instruments and be familiar with the behaviour of any relevant indices and financial markets; and be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Instruments may be complex financial products and such products may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Instruments which are complex financial products unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Instruments are legal investments for it, (2) the Instruments can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Instruments under any applicable risk-based capital or similar rules.

Modification and waivers are binding on all holders of Instruments.

The Conditions contain provisions for calling meetings of Noteholders and Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders and Securityholders including Noteholders and Securityholders who did not attend and vote at the relevant meeting and Noteholders and Securityholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders and Securityholders, Receiptholders or Couponholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed and the Agency Agreement, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to interests of the relevant Noteholders or Securityholders, as the case may be) or (ii) any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or is to correct a manifest error or to comply with mandatory provisions of law.

The Notes may be represented by Global Notes or Global Certificates, the Securities may be represented by Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes (in the case of Bearer Notes) or Global Certificates (in the case of registered Notes). Securities issued under the Programme will be in registered form and represented by one or more Global Certificates. Such Global Notes and Global Certificates will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a “Clearing System”), as the case may be. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Instruments. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Instruments are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Instruments are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Instruments by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Instruments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right under the respective Global Notes or Global Certificates to take enforcement action against the Issuer in the event of a default under the relevant Instruments but will have to rely upon their rights under the Trust Deed.

Holders of Instruments should be aware that definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

In relation to any issue of Instruments which have a denomination consisting of a minimum Specified Denomination (as defined in the applicable Conditions) plus a higher integral multiple of another smaller amount, it is possible that the Instruments may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Holder of Instruments who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Instrument in respect of such holding (should definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or more Specified Denominations. If definitive Instruments are issued, holders should be aware that definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Trustee may request that the Noteholders and Securityholders provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may (at its sole discretion) request the Noteholders or the Securityholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders or Securityholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions notwithstanding the provision of an indemnity and/or security or prefunding to it, in breach of the terms of the Trust Deed constituting the relevant Instruments and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders or Securityholders to take such actions directly.

The Instruments are unsecured obligations.

As the Instruments are unsecured obligations, the repayment of the Instruments may be adversely affected if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Instruments.

RISKS RELATING TO THE MARKET FOR THE INSTRUMENTS GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Instruments issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Instruments are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be admitted to listing on the SGX-ST, there is no assurance that such application will be

accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Instruments issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Instruments.

This is particularly the case for Instruments that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Instruments generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The Issuer will pay principal, distribution (if applicable) and interest (if applicable) on the Instruments in the currency specified in the relevant Pricing Supplement (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (i) the Investor’s Currency equivalent yield on the Instruments, (ii) the Investor’s Currency equivalent value of the principal payable on the Instruments and (iii) the Investor’s Currency equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive no or less interest (if applicable), distribution (if applicable) or principal than expected.

RISKS RELATING TO THE SECURITIES

Securities issued under the Programme may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

Securities may be issued for which investors have no right to require redemption.

The Securities are perpetual and have no fixed final maturity date. Securityholders have no right to require the Issuer to redeem Securities at any time, and an investor who acquires Securities may only dispose of such Securities by sale. Securityholders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all. Therefore, holders of Securities should be aware that they may be required to bear the financial risks of an investment in Securities for an indefinite period of time.

Securityholders may not receive Distribution payments if the Issuer elects to defer Distribution payments under the Security Conditions.

The Issuer may, at its sole discretion and subject to certain conditions as set out in the Security Conditions and, where applicable, specified in the applicable Pricing Supplement, elect to defer any scheduled Distribution on the Securities for any period of time. Subject to the Pusher (if applicable), the Issuer is subject to certain restrictions in relation to the payment of dividends on its Junior Securities or its Parity Securities, the redemption and repurchase on its Parity Securities prior to their stated maturity or Junior Securities until any outstanding Arrears of Distribution and Additional Distribution Amount are satisfied or save in certain specified situations as further described in the Terms and Conditions of the Securities. The Issuer is not subject to any limits as to the number of times Distributions can be deferred pursuant to the Security Conditions, subject to compliance with certain restrictions. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Security Conditions, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distribution shall not constitute a default for any purpose.

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Group's financial condition.

The Securities may be redeemed at the Issuer's option on the date(s) specified in the relevant Pricing Supplement or on the occurrence of certain other events.

The Securities will be redeemable at the option of the Issuer on certain dates as specified in the applicable Pricing Supplement. The date(s) on which the Issuer elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the Securityholders. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There are limited remedies for default under the Securities.

Any scheduled Distribution will not be due if, as provided for in the relevant Pricing Supplement, the Issuer elects not to pay all or a part of that distribution pursuant to the Security Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment under the Securities has become due and the Issuer fails to make the payment when due. The only remedy against the Issuer available to any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be proving in such Winding-Up and/or claiming in the liquidation of the Issuer in respect of the Securities.

The Issuer may raise or redeem other capital which affects the price of the Securities.

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount or type of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders on a Winding-Up or may increase the likelihood of a deferral of Distributions under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell their Securities.

The Securities are subordinated obligations.

The obligations of the Issuer under the Securities will constitute unsecured and subordinated obligations of the Issuer. In the event of the Winding-Up of the Issuer, the rights of the holders of Securities to receive payments in respect of the Securities, will rank senior to the holders of all Junior Securities and *pari passu* with the holders of all Parity Securities, but junior to the claims of all other creditors, including, for the avoidance of doubt, the holders of Notes. In the event of a shortfall of funds or a Winding-Up, an investor in the Securities may lose all or some of its investment and will not receive a full return of the principal amount or any unpaid Arrears of Distribution.

Additional Distribution Amounts or accrued distribution.

In addition, subject to the limit on the aggregate principal amount of Securities that can be issued under the Programme (which can be amended from time to time by the Issuer without the consent of the Securityholders), there is no restriction on the amount of unsubordinated securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of Securities on a winding-up of the Issuer and/or may increase the likelihood of a non-payment under the Securities.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES UNDER THE PROGRAMME

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features.

The benchmark rate for any Floating Rate Notes may not be available

The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”.

Interest rates and indices which are deemed to be “benchmarks”, (including the London interbank offered rate (“**LIBOR**”) and the euro interbank offered rate (“**EURIBOR**”)) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the “**Benchmarks Regulation**”) was published in the Official Journal of the EU on 29 June 2016 and mostly applies, subject to certain transitional provisions, from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the United Kingdom Financial Conduct Authority (the “FCA”) confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “FCA Announcements”). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (“SONIA”) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (“ESTR”) as the new risk free rate. ESTR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and EURIBOR will continue to be supported going forwards. This may cause LIBOR and EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

Investors should be aware that, if LIBOR or EURIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference LIBOR or EURIBOR will be determined for the relevant period by the fallback provisions applicable to such Notes. Depending on the manner in which LIBOR or EURIBOR is to be determined under the Terms and Conditions, this may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for LIBOR or EURIBOR which, depending on market circumstances, may not be available at the relevant time or (ii) result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference LIBOR or EURIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any of the international or national reforms in making any investment decision with respect to any Notes referencing a benchmark.

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR or other similar indices may be adversely affected in the event of a permanent discontinuation of LIBOR or other similar indices.

The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Note Conditions (as further described in Condition 6(j) (Benchmark Discontinuation)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The Note Conditions provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective.

Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Note Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates, and vice versa, may have lower market values than other Notes.

Fixed Rate Notes and Floating Rate Notes (as defined in the Note Conditions) may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of Notes issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

RISKS RELATED TO RENMINBI DENOMINATED INSTRUMENTS

A description of risks which may be relevant to an investor in Instruments denominated in Renminbi (“**Renminbi Instruments**”) are set out below.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Instruments.

Renminbi is not freely convertible at present. The government of the PRC (the “**PRC Government**”) continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being developed.

Although Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the People’s Bank of China (“**PBOC**”) in 2018, there is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Instruments denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Instruments and the Issuer’s ability to source Renminbi outside the PRC to service Renminbi Instruments.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While PBOC has entered into agreements (the “**Settlement Arrangements**”) on the clearing of Renminbi business with financial institutions (the “**Renminbi Clearing Banks**”) in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Instruments. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Instruments, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Instruments is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Instruments unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Instruments in that foreign currency will decline.

Payments with respect to the Renminbi Instruments may be made only in the manner designated in the Renminbi Instruments.

All payments to investors in respect of the Renminbi Instruments will be made solely for so long as the Renminbi Instruments are represented by global certificates held with the common depositary for Clearstream Banking S.A. and Euroclear Bank S.A./N.V. or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement or (ii) for so long as the Renminbi Instruments are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations or (iii) by transfer through the Cross-Border Interbank Payment System in accordance with relevant rules and regulations, if so specified in the Pricing Supplement. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Gains on the transfer of Renminbi Instruments may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Instruments by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax (“**EIT**”) or PRC individual income tax (“**IIT**”) if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident enterprise from the transfer of Renminbi Instruments but its implementation rules have reduced the EIT rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident individual Holder from the transfer of Renminbi Instruments.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Instruments by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and thus become subject to EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Instruments.

Therefore, if enterprise or individual resident Holders which are non-PRC residents are required to pay PRC income tax on gains derived from the transfer of Renminbi Instruments, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-PRC enterprise or individual Holders of Renminbi Instruments reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Instruments may be materially and adversely affected.

FORM OF PRICING SUPPLEMENT IN RELATION TO THE NOTES

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme:

Pricing Supplement dated [●]

Li & Fung Limited
(the “**Issuer**”)

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under its US\$2,000,000,000
Medium Term Note and Perpetual Securities Programme**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) referred to in the amended and restated trust deed dated 20 September 2019 between, *inter alia*, the Issuer and Citicorp International Limited as trustee (the “**Trust Deed**”) and set forth in the Offering Circular dated 27 August 2020 (the “**Offering Circular**”) [and the Supplemental Offering Circular dated [●]]. This document contains the final terms of the Notes described herein and must be read in conjunction with such Trust Deed and such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular [as so supplemented].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Offering Circular dated 27 August 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Trust Deed and the Offering Circular dated [current date] [and the Supplemental Offering Circular], save in respect of the Conditions which are extracted from the Offering Circular dated 27 August 2020 and are attached hereto.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered, sold or delivered within the United States [or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”))] except in certain transactions exempt from the registration requirements of the Securities Act.

MIFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

[PRIIPs Regulation/[Prospectus Regulation/] PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”) or in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.] / [; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 the “**Prospectus Regulation**”)]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the

“PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

[Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are [“prescribed capital markets products”]/[capital markets products other than “prescribed capital markets products”] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).][*Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.*]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (i) Issuer: Li & Fung Limited
2. (i) Series Number: [●]
(ii) Tranche Number: [●] *(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).*
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount: [●]
[(i)] Series: [●]
[(ii)] Tranche: [●]
5. (i) Issue Price: [●] per cent. of the Aggregate Nominal Amount
[plus accrued interest from *[insert date]* in the case of fungible issues only, *(if applicable)*]
[(ii) Net proceeds: [●] (required only for listed issues)
(i) Specified Denominations:^{1, 2} [●]
(ii) Calculation Amount: [●]
7. (i) Issue Date: [●]
(ii) Interest Commencement Date: *[specify/Issue Date/Not Applicable]*

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

² If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of [€1,000] in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000. In relation to any issue of Notes which are a “Global Note exchangeable to Definitive Notes” in circumstances other than in the limited circumstances specified in the Global Note, such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

8. Maturity Date: *[Fixed rate — specify date/Floating rate — Interest Payment Date falling on or nearest to [specify month]]*³
9. Interest Basis: *[[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR/HIBOR]
+/- [●] per cent.
Floating Rate]
[Zero Coupon]
[Dual Currency Interest]
[specify other]
(further particulars specified below)*
10. Redemption/Payment Basis: *[Redemption at par]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]*
11. Change of Interest Basis or Redemption/ *[Specify details of any provision for change of Notes Payment Basis: into another Interest Basis or Redemption/ Payment Basis]*
12. Put/Call Options: *[Investor Put]
[Issuer Call]
[(further particulars specified below)]*
13. Date of [Board] approval for issuance of Notes and Guarantee obtained: *[●] [and [●], respectively]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*
14. Listing: *[Singapore/specify other/None] (For Notes to be listed on the SGX-ST, insert the expected effective listing date of the Notes)*
15. Method of distribution: *[Syndicated/Non-syndicated]*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions *[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: *[●] per cent. per annum [payable[annually/semi-annually/quarterly/other (specify)] in arrear]
(If payable other than annually, consider amending Condition 5)*
- (ii) Interest Payment Date(s): *[[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]/not adjusted] (N.B.: This will need to be amended in the case of long or short coupons)*

³ Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

(iii) Fixed Coupon Amount(s): <i>(Applicable to Notes in definitive form)</i>	[●] per Calculation Amount ⁴
(iv) Broken Amount(s): <i>(Applicable to Notes in definitive form)</i>	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v) Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/365(Fixed) ⁵ or <i>[specify other]</i>]
(vi) Determination Date(s):	[●] in each year <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <i>(N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration)</i> <i>(N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA))</i>
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/Give details]
17. Floating Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Specified Period(s)/Specified Interest Payment Dates:	[●]
(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>[specify other]</i>]
(iii) Additional Business Centre(s):	[●]
(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/ <i>specify other</i>]
(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent):	[●]

⁴ For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.”

⁵ Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

- (vi) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): [●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (viii) Margin(s): [+/-] [●] per cent. per annum
- (ix) Minimum Rate of Interest: [●] per cent. per annum
- (x) Maximum Rate of Interest: [●] per cent. per annum
- (xi) Day Count Fraction: [Actual/Actual or Actual/Actual (ISDA)
Actual/365(Fixed)
Actual/365(Sterling)
Actual/360
30/360, 360/360 or Bond Basis
30E/360 or Eurobond Basis
30E/360 (ISDA)
Other]
(See Condition 5 for alternatives)
- (xii) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
18. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Accrual Yield: [●] per cent. per annum
 - (ii) Reference Price: [●]
 - (iii) Any other formula/basis of determining amount payable: [●]

- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 6(B)(i) and Condition 7 *apply/specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent): [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●]
- (b) Maximum Redemption Amount: [●]
- (iv) Notice period (if other than as set out in the Conditions): [●]
(*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent.*)
21. Investor Put: [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Optional Redemption Date(s): [●]

(ii) Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/specify other/see Appendix]
(iii) Notice period (if other than as set out in the Conditions):	[●] <i>(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent.)]</i>
22. Final Redemption Amount: [[●] per Calculation Amount/specify other/see Appendix]
23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Condition): [[●] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:
- [Bearer Notes:**
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice⁶]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]
- [Registered Notes:**
 Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate]
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 17(iii) and 19(vii) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

⁶ If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of [€1,000] in excess thereof up to and including €199,000", the Temporary Global Note shall not be exchangeable on [●] days' notice.

27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. *N.B.: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues.*]
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable [(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
30. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

31. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilisation Manager(s) (if any): [Not Applicable/give name]
32. If non-syndicated, name of Relevant Dealer: [Not Applicable/give name and address]
33. U.S. Selling Restrictions: [Reg. S Category 2⁷; TEFRA D/TEFRA C/TEFRA not applicable]
34. Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not applicable]
35. Additional selling restrictions: [Not Applicable/give details]
36. Use of Proceeds (if different from the “Use of Proceeds” section from the Offering Circular: [Not Applicable]/[Give Details]

OPERATIONAL INFORMATION

37. Any clearing system(s) other than Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
38. Delivery: Delivery [against/free of] payment
39. Additional Paying Agent(s) (if any): [●]
- ISIN: [●]
- Common Code: [●]

(insert here any other relevant codes)

⁷ Reg. S Compliance Category 1 may be available subject to a confirmation of no substantial U.S. market interest by the Issuer.

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required for the issue of Notes described herein pursuant to the US\$2,000,000,000 Medium Term Note and Perpetual Securities Programme of Li & Fung Limited.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of

LI & FUNG LIMITED:

By: _____
Duly authorised

FORM OF PRICING SUPPLEMENT IN RELATION TO SECURITIES

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Securities issued under the Programme.

Pricing Supplement dated [●]

LI & FUNG LIMITED

Issue of *[Aggregate Nominal Amount of Tranche]* *[Title of Securities]*
under the US\$2,000,000,000 Medium Term Note and Perpetual Securities Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Securities (the “**Conditions**”) referred to in the amended and restated trust deed dated 20 September 2019 between, *inter alia*, the Issuer and Citicorp International Limited as trustee (the “**Trust Deed**”) set forth in the Offering Circular dated 27 August 2020 (the “**Offering Circular**”) [and the Supplemental Offering Circular dated [●]]. This document contains the final terms of the Securities described herein and must be read in conjunction with such Trust Deed and such Offering Circular. Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of this Pricing Supplement and the Offering Circular [as so supplemented].

The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated 27 August 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated *[current date]* [and the supplementary Offering Circular dated [●], save in respect of the Conditions which are extracted from the Offering Circular dated 27 August 2020 and are attached hereto.

The Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Securities may not be offered, sold or delivered within the United States [or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”))] except in certain transactions exempt from the registration requirements of the Securities Act.

MIFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

[PRIIPs Regulation/[Prospectus Regulation/] PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”) or in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.] / [; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 the “**Prospectus Regulation**”)]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the

“PRIIPs Regulation”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

[Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Securities are [“prescribed capital markets products”]/[capital markets products other than “prescribed capital markets products”] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).] *[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Pricing Supplement.]*

1. Issuer: Li & Fung Limited
2. (i) Series Number: [●]
(ii) Tranche Number: [●]
(iii) Date on which the Securities become fungible: [The Securities shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date [which is expected to occur on or about [●]].]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount:
(i) Series: [●]
(ii) Tranche: [●]
5. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued Distribution from [●]]
6. (i) Specified Denominations: [●]⁸
(ii) Calculation Amount⁹: [●]
7. (i) Issue Date: [●]
(ii) Distribution Commencement Date: [[●]/Issue Date/Not Applicable]
8. Distribution Basis: [[●] per cent. Fixed Rate] (see paragraph [11/12/13] below)

⁸ If the specified denomination is expressed to be €100,000 or their equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows:

“€100,000 and integral multiples of [€1,000] in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000”.

⁹ The applicable Calculation Amount will be (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Notes or (ii) if there are several Specified Denomination, the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations).

9. Put/Call Options: [Redemption upon a Tax Event] [Redemption at the option of the Issuer] [Redemption upon a Capital Event] [Redemption upon an Accounting Event] [(See paragraph [14/15/16/17/18/19] below)]
10. Date [Board] approval for issuance of Securities obtained: [●]
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Securities)

PROVISIONS RELATING TO DISTRIBUTION (IF ANY) PAYABLE

11. Distribution Rate: [[●] per cent. per annum payable in arrear on each Distribution Payment Date]/ [(or if the Distribution Rate of the Securities are to be subject to step-up(s), consider the following)
- (a) in respect of the period from, and including, the Issue Date to, but excluding, the First Reset Date, the Initial Distribution Rate; [and]
 - (b) in respect of the period from, and including, the First Reset Date to, but excluding, the Second Reset Date, the First Reset Distribution Rate[./;]
 - (c) from and including, each Reset Date falling on and after the Second Reset Date, to, but excluding, the immediately following Reset Date, up to the Reset Date falling on Additional Step-up Margin Reset Date, the Second Reset Distribution Rate[./; and]
 - (d) from, and including, each Reset Date falling on and after the Additional Step-up Margin Reset Date, to, but excluding, the immediately following Reset Date, the Third Reset Distribution Rate.

Where:

“**Initial Distribution Rate**” is [●] per cent.; [and]
“**Second Reset Distribution Rate**” is [●] per cent.[.];
[“**Third Reset Distribution Rate**” is [●] per cent.;]
“**First Reset Date**” is [●];
“**Second Reset Date**” is [●]; and
“**Additional Step-up Margin Reset Date**” is [●];]
(Amend as appropriate. See “Definitions” section for applicability of any additional definitions.)

- (ii) Distribution Payment Date(s): [●] and [●] in each year [adjusted in accordance with [*specify Business day Convention and any applicable Business Centre(s) for the definition of “Business Day”*]/[not adjusted]

- (iii) Fixed Distribution Amount[(s)]: [●] per Calculation Amount¹⁰
- (iv) Broken Amount(s): [Not Applicable]/[●] per Calculation Amount, payable on the Distribution Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / other]
- 12. Dividend Pusher and Dividend Stopper: [Applicable/Not Applicable]
 - (i) [Dividend Pusher Lookback Period: [●] months]
 - (ii) Relevant Obligations (Pusher): [Junior Obligations/Parity Obligations/Junior Obligations and Parity Obligations/Not Applicable]
 - (iii) Relevant Obligations (Stopper): [Junior Obligations/Parity Obligations/Junior Obligations and Parity Obligations/Not Applicable]
- 13. Other terms relating to the method of calculating Distribution: [Not Applicable]/[give details]

PROVISIONS RELATING TO REDEMPTION

- 14. Redemption at the option of the Issuer
 - (i) Optional Redemption Date(s) (Call): [●]
 - (ii) Optional Redemption Amount (Call) [●] per Calculation Amount
 - [(iii) If redeemable in part: *(If not applicable, delete the remaining subparagraphs of this paragraph)*
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount [●] per Calculation Amount]
 - (iv) Notice period: [●]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- 15. Capital Event Redemption: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (i) Early Redemption Amount (Capital Event): [As defined in the Conditions]/[●] per Calculation Amount]
 - (ii) Relevant Rating Agencies in relation to any Capital Event: [●]

¹⁰ For Hong Kong dollar or Renminbi denominated Securities where the Distribution Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Distribution Amount shall be calculated by multiplying the product of the Distribution Rate and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Securities and to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Securities, in each case being rounded upwards.

16. Accounting Event Redemption: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Early Redemption Amount(Accounting Event): [As defined in the Conditions]/[●] per Calculation Amount]
17. Early Redemption Amount (Minimal Outstanding Amount): [As defined in the Conditions]/[●] per Calculation Amount]
18. Early Redemption Amount (Tax): [As defined in the Conditions]/[●] per Calculation Amount]
19. Conditional Purchase: [Not Applicable/Condition 6(h) (*Redemption and Purchase — Purchase*) shall be conditional.
- The Issuer, any of its Subsidiaries or any of their respective agents may:
- (a) prior to the First Reset Date, at any time purchase Securities up to a maximum amount representing 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in the open market or otherwise and at any price; and
 - (b) following the First Reset Date, at any time purchase Securities in the open market or otherwise and at any price.]

GENERAL PROVISIONS APPLICABLE TO THE SECURITIES

20. Special Event Substitution or Variation: [Applicable/Not Applicable]
21. Form of Securities: **Registered Securities only:**
Global Note Certificate exchangeable for unrestricted Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances specified in the Unrestricted Global Note Certificate
22. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details. Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of distribution, to which sub-paragraph 11(ii) relates]
23. Use of Proceeds (if different from the "Use of Proceeds" section from the Offering Circular) [Not Applicable]/[Give Details]

LISTING AND ADMISSION TO TRADING

24. Listing/Admission to Trading: [Singapore Exchange Securities Trading Limited/Other]
25. Net Proceeds: (specify)/None] [●] (Applicable to listed Securities only)

DISTRIBUTION

26. Method of Distribution: [Syndicated/Non-syndicated]
- (i) If syndicated, names of Dealers: [Not Applicable/*give names*]
- (ii) Stabilisation Manager(s), if any: [Not Applicable/*give names*]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/*give names*]
27. U.S. Selling Restrictions: [Reg. S Compliance Category¹¹]
28. Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not applicable]
29. Additional Selling Restrictions: [Not Applicable/*give details*]
30. Private Bank Rebate/Commission: [Not Applicable/*give details*]

RATINGS

[The Securities to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Securities of this type issued under the Programme generally]:

31. Ratings: [Standard & Poor's: [●]]
- [Moody's: [●]]
- [[Other]: [●]]
- (The above disclosure should reflect the rating allocated to Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

OPERATIONAL INFORMATION

32. ISIN: [●]
33. Common Code: [●]
34. Any clearing system(s) other than Euroclear or Clearstream and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
35. Delivery: Delivery [against/free of] payment
36. Names and addresses of additional Paying Agent(s) (if any): [●]/[Not Applicable]

GENERAL

37. The aggregate principal amount of Securities issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Securities not denominated in [U.S. dollars]):

¹¹ Reg. S Compliance Category 1 may be available subject to a confirmation of no substantial U.S. market interest by the Issuer.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the [*specify relevant stock exchange/market*] of the Securities described herein pursuant to the US\$2,000,000,000 Medium Term Note and Perpetual Securities Programme.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of

LI & FUNG LIMITED:

By: _____
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, as completed by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form”.

1. Introduction

- (a) *Programme:* Li & Fung Limited (the “**Issuer**”) has established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of up to U.S.\$2,000,000,000 in aggregate principal amount of notes (the “**Notes**”) and/or subordinated perpetual capital securities (the “**Securities**”). These terms and conditions relate to Notes issued under the Programme.
- (b) *Pricing Supplement:* Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. Each Tranche is the subject of a Pricing Supplement (the “**Pricing Supplement**”) which supplements these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) *Trust Deed:* The Notes are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated 20 September 2019 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Citicorp International Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).
- (d) *Agency Agreement:* The Notes are the subject of an issue and paying agency agreement dated 11 October 2016 (the “**Agency Agreement**”) between the Issuer, Citibank, N.A., London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the “**Agents**” are to the Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them.
- (e) *The Notes:* The Notes may be issued in bearer form (“**Bearer Notes**”), or in registered form (“**Registered Notes**”). All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing during normal business hours at the registered office for the time being of the Trustee, being at the date hereof 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.
- (f) *Summaries:* Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders (as defined below) and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents with reasonable prior written notification.

2. Interpretation

- (a) *Definitions*: In these Conditions the following expressions have the following meanings: “**Accrual Yield**” has the meaning given in the relevant Pricing Supplement;

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Business Day**” means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (b) in relation to any sum payable in Renminbi, a day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed; and
- (c) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

- (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the calculation agent appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“Calculation Amount” has the meaning given in the relevant Pricing Supplement; **“Coupon Sheet”** means, in respect of a Note, a coupon sheet relating to the Note;

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (a) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **“Actual/365 (Fixed)”** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if **“Actual/360”** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if **“30/360”** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30”;

- (f) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**First Interest Payment Date**” means the date specified in the relevant Pricing Supplement;

“**Fixed Coupon Amount**” has the meaning given in the relevant Pricing Supplement;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Holder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer — Title to Registered Notes*);

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;

- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

“Interest Determination Date” has the meaning given in the relevant Pricing Supplement;

“Interest Payment Date” means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc.;

“Issue Date” has the meaning given in the relevant Pricing Supplement; **“Margin”** has the meaning given in the relevant Pricing Supplement;

“Material Subsidiary” means at any time a Subsidiary of the Issuer or any of its Subsidiaries:

- (a) as to which one or more of the following conditions is satisfied:
 - (i) its profit before tax or (in the case of a Subsidiary of the Issuer which has one or more Subsidiaries) consolidated profit before tax attributable to the Issuer (in each case before taxation and extraordinary items) are at least 5 per cent. of the consolidated profit before tax of the Issuer and its Subsidiaries (in each case before taxation and extraordinary items); or
 - (ii) its net assets (excluding any intercompany balances with the Issuer or any of its Subsidiaries) or (in the case of a Subsidiary of the Issuer which has one or more Subsidiaries) consolidated net assets (excluding any consolidated intercompany balances with the Issuer or any of its Subsidiaries) attributable to the Issuer represent 5 per cent. or more of the consolidated net assets (after deducting minority interests

in Subsidiaries) of the Issuer and its Subsidiaries; all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest consolidated audited accounts of the Issuer and its Subsidiaries,

provided that: (A) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary of the Issuer which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated profit before tax shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; (C) if the accounts of a Subsidiary of the Issuer (not being a Subsidiary referred to in (A) above) are not consolidated with those of the Issuer then the determination of whether or not the Subsidiary of the Issuer is a Material Subsidiary shall be based on a pro forma consolidation of its accounts, (consolidated, if appropriate) with the consolidated accounts of the Issuer and its Subsidiaries; or

- (b) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary of the Issuer which immediately prior to the transfer was a Material Subsidiary, provided that the Subsidiary of the Issuer which so transfers its assets and undertaking shall forthwith upon the transfer cease to be a Material Subsidiary (but without prejudice to paragraph (a) above) and the Subsidiary of the Issuer to which the assets and undertaking are so transferred shall become a Material Subsidiary, and for the purposes of these Conditions, an opinion by the auditors of the Issuer on a calculation to show whether or not a Subsidiary is a Material Subsidiary shall be conclusive and binding on all parties in the absence of manifest error;

“Maturity Date” has the meaning given in the relevant Pricing Supplement;

“Maximum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Minimum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Noteholder”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer — Title to Registered Notes*);

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Date (Call)” has the meaning given in the relevant Pricing Supplement;

“Optional Redemption Date (Put)” has the meaning given in the relevant Pricing Supplement;

“Payment Business Day” means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Pricing Supplement;

“Reference Banks” has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Pricing Supplement;

“Reference Rate” has the meaning given in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

“Regular Period” means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Pricing Supplement;

“Relevant Indebtedness” means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is issued with the intention on the part of the Issuer that it should be, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) having an original maturity of more than one year from its date of issue;

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Pricing Supplement;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“Specified Currency” has the meaning given in the relevant Pricing Supplement; **“Specified Denomination(s)”** has the meaning given in the relevant Pricing Supplement; **“Specified Office”** has the meaning given in the Agency Agreement;

“Specified Period” has the meaning given in the relevant Pricing Supplement; **“Subsidiary”** or **“Subsidiaries”** of any Person means:

- (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions); or
- (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person.

“Talon” means a talon for further Coupons;

“TARGET2” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“TARGET Settlement Day” means any day on which TARGET2 is open for the settlement of payments in euro;

“Treaty” means the Treaty on the Functioning of the European Union, as amended; and **“Zero Coupon Note”** means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Trust Deed;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes; and

(viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

- (a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.
- (d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

- (h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
- (j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (at the cost and expense of such Noteholder) by the Registrar to any Noteholder who requests in writing such regulations.

4. Status of the Notes

The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution of Noteholders.

6. Fixed Rate Note Provisions

- (a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments - Bearer Notes*) and Condition 11 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note Provisions

- (a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments — Bearer Notes*) and Condition 11 (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination.* If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
 - (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;
 - (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading international banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination:* If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

- (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.
- (e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than United States dollars, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of United States dollars, means one cent.
- (g) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders. The Issuer, the Trustee and the Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (h) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (j) *Benchmark Discontinuation:* If a Benchmark Event occurs in relation to the Reference Rate when the Rate of Interest (or any component part thereof) for any Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7(i)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 7(i)(iii)) and any Benchmark Amendments (in accordance with Condition 7(i)(iv)).

In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, Agents or the Noteholders for any determination made by it pursuant to this Condition 7(i) and the Trustee will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof.

- (i) If (A) the Issuer is unable to appoint an Independent Adviser or (B) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(i) prior to the relevant Interest Determination Date, the

Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this final paragraph of Condition 7(i) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 7(i).

- (ii) If the Independent Adviser determines in its discretion that:
 - (A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(i)(iii)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 7(i); or
 - (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(i)(cc)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 7(i).
- (iii) If the Independent Adviser determines in its discretion (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).
- (iv) If any relevant Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(i) and the Independent Adviser determines in its discretion (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, following consultation with the Calculation Agent (or the person specified in the applicable Final Terms Pricing Supplement as the party responsible for calculating the Rate of Interest and the Interest Amount(s)), subject to giving notice thereof in accordance with Condition 7(i)(v), without any requirement for the consent or approval of relevant Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice (and for the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, consent to and effect such consequential amendments to the Trust Deed and these Conditions as may be required in order to give effect to this Condition 7(i)).
- (v) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(i) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 20 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.
- (vi) No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:
 - (A) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 7(i); and
 - (B) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate, Alternative Rate and/or Adjustment Spread.

- (vii) The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Trustee and Principal Paying Agent, the Calculation Agent, the other Paying Agents and the Noteholders.

As used in this Condition 7(i):

“Adjustment Spread” means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) (if no such recommendation has been made, or in the case of an Alternative Rate), the Independent Adviser, determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or
- (iii) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or
- (iv) (if the Independent Adviser determines that no such industry standard is recognised or acknowledged) the Independent Adviser determines to be appropriate.

“Alternative Rate” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 7(i)(ii) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the Specified Currency.

“Benchmark Event” means:

- (i) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) a public statement by the administrator of the relevant Reference Rate that it has ceased, or will, by a specified date within the following six months, cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a specified date within the following six months, be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or

- (v) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, (i) such Reference Rate is no longer representative of an underlying market or (ii) the methodology to calculate such Reference Rate has materially changed; or
- (vi) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

“**Benchmark Amendments**” has the meaning given to it in Condition 7(i)(i).

“**Independent Adviser**” means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense under Condition 7(i)(i).

“**Relevant Nominating Body**” means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“**Successor Rate**” means a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

8. Zero Coupon Note Provisions

- (a) *Application:* This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Redemption and Purchase

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments — Bearer Notes*) and Condition 11 (*Payments — Registered Notes*).

- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:
- (i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Bermuda or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred of and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

- (c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

- (d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(b) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(b) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(d), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(d), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(d), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.
- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (d) above.
- (g) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 9(f) or, if none is so specified, a Day Count Fraction of 30E/360.

- (h) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.
- (i) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.
- (j) *Calculations:* Neither the Trustee nor any of the Agents (other than the Calculation Agent and solely in respect of its functions as an appointment Calculation Agent of the Issuer) shall be responsible for calculating or verifying the calculations of any amount under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

10. Payments — Bearer Notes

This Condition 10 is only applicable to Bearer Notes.

- (a) *Principal*: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in Renminbi and maintained by the payee with a bank in Hong Kong.
- (b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, and payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (ii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.
- (e) No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (f) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

- (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

- (g) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 10(g) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition (b) (*Redemption for tax reasons*), Condition 9(d) (*Redemption at the option of Noteholders*), Condition 9(b) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (h) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph above).
- (j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (k) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. Payments — Registered Notes

This Condition 11 is only applicable to Registered Notes.

- (a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in Renminbi and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

- (b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the close of business on the relevant Record Date.

So long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

12. Taxation

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bermuda or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the

Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
 - (ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or
 - (iii) where such withholding or deduction is required pursuant to an agreement described in section 1471(b) of the Code, or is otherwise imposed pursuant to sections 1471 through 1474 of the Code and any regulations, agreements or undertakings thereunder or official interpretations thereof or other law implementing an intergovernmental approach thereto.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than Bermuda, references in these Conditions to Bermuda shall be construed as references to Bermuda and/or such other jurisdiction.

13. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified, pre-funded and/or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within fourteen days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default remains unremedied for 60 days after the Trustee has given written notice thereof to the Issuer; or
- (c) *Cross-default of Issuer or Material Subsidiary:*
 - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
 - (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.\$30,000,000 (or its equivalent in any other currency or currencies); or

- (d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an amount or amounts exceeding in the aggregate U.S.\$30,000,000 is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries and is not discharged or stayed within 30 days; or
- (f) *Insolvency, etc.*: (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any of its Material Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) *Winding-up, etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (h) *Analogous event*: any event occurs which under the laws of Bermuda has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding-up, etc*) above; or
- (i) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Bermuda is not taken, fulfilled or done; or
- (j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or
- (k) *Government intervention*: (A) all or any substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (B) the Issuer or any of its Material Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues.

14. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

15. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

16. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified, pre-funded and/or provided with security and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (i) the Issuer shall at all times maintain a principal paying agent and a registrar; and
- (ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (iii) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders by the Issuer.

17. Meetings of Noteholders; Modification and Waiver

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee (subject to it being first indemnified, pre-funded and/or provided with security to its satisfaction) upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution

will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 90 per cent. of the aggregate principal amount of the then outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) *Direction from Noteholders:* Notwithstanding anything to the contrary in these Conditions or the Trust Deed, whenever the Trustee is required or entitled by the terms of these Conditions or the Trust Deed to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified, pre-funded and/or provided with security to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.
- (d) *Certificates and reports:* The Trustee may rely without liability to any Noteholder, Coupon holder or to other person on a report, advice, opinion, confirmation or certificate from any lawyers, valuers, accountants (including the auditors, surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Trustee, the Noteholders and the Coupon holders.

18. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified, pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

19. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

20. Notices

- (a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg and/or the alternative clearing system, as the case may be.

21. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in

question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. Governing Law and Jurisdiction

- (a) *Governing law:* The Notes and the Trust Deed and all non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.
- (b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the terms and conditions of the Securities which, as completed by the relevant Pricing Supplement, will be endorsed on each Security in definitive form issued under the Programme. The terms and conditions applicable to any Security in global form will differ from those terms and conditions which would apply to the Security were it in definitive form to the extent described under “Summary of Provisions Relating to the Instruments while in Global Form”.

1. Introduction

- (a) *Programme*: Li & Fung Limited (the “**Issuer**”) has established a Euro Medium Term Security Programme (the “**Programme**”) for the issuance of up to U.S.\$2,000,000,000 in aggregate principal amount of notes (the “**Notes**”) and/or subordinated perpetual capital securities (the “**Securities**”). These terms and conditions relate to Securities issued under the Programme.
- (b) *Pricing Supplement*: Securities issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Securities. Each Tranche is the subject of a Pricing Supplement (the “**Pricing Supplement**”) which supplements these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Securities are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) *Trust Deed*: The Securities are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated 20 September 2019 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Citicorp International Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).
- (d) *Agency Agreement*: The Securities are the subject of an issue and paying agency agreement dated 11 October 2016 (the “**Agency Agreement**”) between the Issuer, Citibank, N.A., London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Securities), Citibank, N.A., London Branch as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Securities), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities), the transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Securities) and the Trustee. In these Conditions references to the “**Agents**” are to the Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them.
- (e) *The Securities*: The Securities are issued in registered form. All subsequent references in these Conditions to “Securities” are to the Securities which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing during normal business hours at the registered office for the time being of the Trustee, being at the date hereof 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.
- (f) *Summaries*: Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Securityholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Securityholders during normal business hours at the Specified Offices of each of the Agents with reasonable prior written notification.

2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

“Additional Business Centre(s)” means the city or cities specified as such in the relevant Pricing Supplement;

“Additional Financial Centre(s)” means the city or cities specified as such in the relevant Pricing Supplement;

“Business Day” means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (b) in relation to any sum payable in Renminbi, a day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed; and
- (c) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that:**
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

- (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the calculation agent appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate of Distribution and Distribution Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“Calculation Amount” has the meaning given in the relevant Pricing Supplement;

a **“Compulsory Distribution Payment Event”** occurs if either or both of the following criteria are met:

- (a) a dividend, distribution or other payment is declared, paid or made on any Relevant Obligations (Pusher) (other than a payment declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants); or
- (b) the Issuer redeems, reduces, cancels, buys-back or acquires for any consideration any of its Relevant Obligations (Pusher) (except for a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants);

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (a) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **“Actual/365 (Fixed)”** is so specified, means the actual number of days in the Calculation Period divided by 365;

- (d) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30”;

- (f) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Distribution Amount**” means, in relation to a Security and a Distribution Period, the amount of distribution payable in respect of that Security for that Distribution Period;

“**Distribution Commencement Date**” means the Issue Date of the Securities or such other date as may be specified as the Distribution Commencement Date in the relevant Pricing Supplement;

“**Distribution Payment Date**” means the First Distribution Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Distribution Commencement Date (in the case of the first Distribution Payment Date) or the previous Distribution Payment Date (in any other case);

“**Distribution Period**” means each period beginning on (and including) the Distribution Commencement Date or any Distribution Payment Date and ending on (but excluding) the next Distribution Payment Date;

“Dividend Pusher Lookback Period”, if applicable, shall be the period specified in the relevant Pricing Supplement;

“Early Redemption Amount (Accounting Event)” means, in respect of any Security in which “Accounting Event Redemption” is specified as being applicable in the relevant Pricing Supplement, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Early Redemption Amount (Capital Event)” means, in respect of any Security in which “Capital Event Redemption” is specified as being applicable in the relevant Pricing Supplement, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Early Redemption Amount (Minimal Amount Outstanding)” means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Early Redemption Amount (Tax)” means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Extraordinary Resolution” has the meaning given in the Trust Deed;

“First Distribution Payment Date” means the date specified in the relevant Pricing Supplement;
“Fixed Distribution Amount” has the meaning given in the relevant Pricing Supplement;
“HKFRS” means Hong Kong Financial Reporting Standards, as amended from time to time.

“Holder” has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Securities*);

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Securities of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc.;

“Issue Date” has the meaning given in the relevant Pricing Supplement;

“Issuer Notional Preference Shares” has the meaning given to it in Condition 4(b) (*Status of the Securities — Ranking of claims in respect of the subordinated Securities*);

“Junior Obligations” (a) means, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, the ordinary shares of the Issuer or any other securities ranking *pari passu* therewith in respect of which all payments of dividends and distributions are discretionary (save with respect to part (B) of the definition of “Compulsory Distribution Payment Event” contained in Condition 5(d)(i) (*Distribution — Distribution Deferral — Optional Deferral if the Dividend Pusher Applies*) and to Condition 5(d)(v)(B) (*Distribution — Distribution Deferral — Restrictions in the case of an Optional Deferral*) in which case Junior Obligations means any class of the Issuer’s share capital); or (b) has the meaning given in the relevant Pricing Supplement, if the Dividend Pusher is specified in the relevant Pricing Supplement as being not applicable;

“Moody’s” means Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors;

“Optional Redemption Amount (Call)” means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Date (Call)” has the meaning given in the relevant Pricing Supplement;

“Parity Obligations” means, unless otherwise defined in the relevant Pricing Supplement, any instrument or security (including without limitation any preference share) issued, entered into or guaranteed by the Issuer (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with an Issuer Notional Preference Share and (ii) the terms of which provide that the making of payments thereon and distributions in respect thereof are fully at the discretion of the Issuer and/or, in the case of an instrument or security guaranteed by the Issuer, the issuer thereof);

“Payment Business Day” means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Securities denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

“Qualifying Securities” means securities that:

- (a) have terms not materially less favourable to an investor from the terms of the Securities (as reasonably determined by the Issuer, and provided that a certification to such effect (and confirming that the conditions set out in (i) and (ii) below have been satisfied) of two directors of the Issuer shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), *provided that:*
 - (i) they are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a guarantee of the Issuer; and

- (ii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* with the Securities on a Winding-Up of the issuer or guarantor thereof, shall preserve the Holders' rights to any Arrears of Distribution, any Additional Distribution Amount and any other payment that has accrued with respect to the relevant securities, and shall contain terms which provide for the same Rate of Distribution, Distribution Payment Dates and redemption events, from time to time applying to the Securities; and other terms of such securities are substantially identical (as reasonably determined by the Issuer) to the Securities, save for the modifications or amendments to such terms that are specifically required to be made in order to avoid or resolve an Accounting Event, a Capital Event or, as the case may be, a Withholding Tax Event;
- (b) have been, or will on issue be, assigned at least the same rating as that assigned by the Rating Agencies to the Securities immediately prior to such substitution or variation; and
- (c) are listed on the Official List of the SGX-ST or another securities exchange of international standing regularly used for the listing and quotation of debt securities offered and traded in the international markets;

"Rate of Distribution" means the rate or rates (expressed as a percentage per annum) of distribution payable in respect of the Securities specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"Rating Agencies" means (a) in relation to any Capital Event, the rating agencies specified in the relevant Pricing Supplement; or (b) in relation to Qualifying Securities, the rating agencies specified in the relevant Pricing Supplement, or if one or more of the rating agencies specified in the relevant Pricing Supplement shall not make a rating of the Securities publicly available, a United States nationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for such rating agency;

"Redemption Amount" means, as appropriate, the Early Redemption Amount (Accounting Event), the Early Redemption Amount (Capital Event), the Early Redemption Amount (Tax), the Optional Redemption Amount (Call) or such other amount in the nature of a redemption amount as may be specified in the relevant Pricing Supplement;

"Regular Period" means:

- (a) in the case of Securities where distribution is scheduled to be paid only by means of regular payments, each period from and including the Distribution Commencement Date to but excluding the first Distribution Payment Date and each successive period from and including one Distribution Payment Date to but excluding the next Distribution Payment Date;
- (b) in the case of Securities where, apart from the first Distribution Period, distribution is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Distribution Payment Date falls; and
- (c) in the case of Securities where, apart from one Distribution Period other than the first Distribution Period, distribution is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Distribution Payment Date falls other than the Distribution Payment Date falling at the end of the irregular Distribution Period;

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders;

“Relevant Financial Centre” has the meaning given in the relevant Pricing Supplement;

“Relevant Obligations (Pusher)” has the meaning given in the relevant Pricing Supplement;

“Relevant Obligations (Stopper)” has the meaning given in the relevant Pricing Supplement;

“Relevant Time” has the meaning given in the relevant Pricing Supplement;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, to reduce the amount of principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) payable on any date in respect of the Securities, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment, to change the currency of payments under the Securities, to amend the subordination provisions in the Trust Deed, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors;

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“Securityholder” has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Securities*);

“Special Event” means a Withholding Tax Event, a Capital Event, an Accounting Event, or any combination of the foregoing;

“Special Event Redemption” means a redemption in respect of: (i) a Withholding Tax Event (as defined in Condition 6(b) (*Redemption and Purchase — Redemption for tax reasons*)), or (ii) a Capital Event (as defined in Condition 6(d) (*Redemption and Purchase — Redemption upon a Capital Event*)), or (iii) an Accounting Event (as defined in Condition 6(e) (*Redemption and Purchase — Redemption upon an accounting event*)), or (iv) redemption in the case of minimal amount outstanding (as described in Condition 6(f) (*Redemption and Purchase — Redemption in the case of minimal amount outstanding*)));

“Special Event Redemption Date” means the date on which the Securities are redeemed in a Special Event Redemption;

“Specified Currency” has the meaning given in the relevant Pricing Supplement; **“Specified Denomination(s)”** has the meaning given in the relevant Pricing Supplement; **“Specified Office”** has the meaning given in the Agency Agreement;

“Specified Period” has the meaning given in the relevant Pricing Supplement; **“Subsidiary”** or **“Subsidiaries”** of any Person means:

- (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions); or
- (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person.

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**Treaty**” means the Treaty on the Functioning of the European Union, as amended; and

“**Winding-Up**” means a final and effective order by a competent authority for the bankruptcy, winding-up, liquidation or similar procedure in respect of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation (a) the terms of which reorganisation, reconstruction, merger or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution; and (b) which does not result in the Securities thereby becoming redeemable or repayable in accordance with these Conditions).

(b) *Interpretation:* In these Conditions:

- (i) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8 (*Taxation*), any premium payable in respect of a Security and any other amount in the nature of principal payable pursuant to these Conditions;
- (ii) any reference to distribution shall be deemed to include any additional amounts in respect of distribution which may be payable under Condition 8 (*Taxation*) and any other amount in the nature of distribution payable pursuant to these Conditions;
- (iii) references to Securities being “outstanding” shall be construed in accordance with the Trust Deed;
- (iv) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Securities; and
- (v) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Securities.

3. Form, Denomination, Title and Transfer

- (a) *Securities:* Securities are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.
- (b) *Title to Securities:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Certificate**”) will be issued to each Holder of Securities in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register. “**Holder**” means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Securityholder**” shall be construed accordingly.

- (c) *Ownership*: The Holder of any Security shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Security under the Contracts (Rights of Third Parties) Act 1999.
- (d) *Transfers of Securities*: Subject to paragraphs (g) (*Closed periods*) and (h) (*Regulations concerning transfers and registration*) below, a Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Specified Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor.
- (e) *Registration and delivery of Certificates*: Within five business days of the surrender of a Certificate in accordance with paragraph (d) (*Transfers of Securities*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (f) *No charge*: The transfer of a Security will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (g) *Closed periods*: Securityholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or distribution in respect of the Securities.
- (h) *Regulations concerning transfers and registration*: All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (at the cost and expense of such Securityholder) by the Registrar to any Securityholder who requests in writing such regulations.

4. Status of the Securities

- (a) *Status — Subordinated Securities*: The Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and with any Parity Obligations of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 4.
- (b) *Ranking of claims in respect of the subordinated Securities*: In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (and if more than one class of preference shares is outstanding, the most junior ranking

class of such preference shares) (“**Issuer Notional Preference Shares**”) having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security was entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up were an amount equal to the principal amount of the relevant Security (or the Make Whole Amount if applicable) together with accrued and unpaid Distributions (including any Arrears of Distributions or any Additional Distribution Amount (each as defined in Condition 5(d)(iv) (*Distribution — Distribution Deferral — Cumulative Deferral*)).

- (c) *Set-off — Securities*: Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator) and accordingly any such discharge shall be deemed not to have taken place.

5. Distribution

- (a) *Accrual of Distribution*: Subject to Condition 5(d) (*Distribution - Distribution Deferral*), the Securities confer a right to receive distributions (each a “**Distribution**”) from the Distribution Commencement Date at the Rate of Distribution payable in arrear on each Distribution Payment Date, subject as provided in Condition 7 (*Payments*).

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Rate of Distribution (after as well as before any judgment) up to but excluding whichever is the earlier of (i) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

- (b) *Fixed Distribution Amount*: The amount of distribution payable in respect of each Security for any Distribution Period shall be the relevant Fixed Distribution Amount and, if the Securities are in more than one Specified Denomination, shall be the relevant Fixed Distribution Amount in respect of the relevant Specified Denomination.
- (c) *Calculation of Distribution Amount*: The amount of distribution payable in respect of each Security for any period for which a Fixed Distribution Amount is not specified shall be calculated by applying the Rate of Distribution to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Security divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

If the relevant Pricing Supplement specifies that the Rate of Distribution is subject to reset, the Calculation Agent will, on the Calculation Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate payable in respect of the Securities. The Calculation Agent will cause the applicable Reset Distribution Rate determined by it to be notified to the Issuer, the Paying Agents, the Trustee, the Holders and each listing authority, stock exchange and/or quotation system (if any) on to which the Securities have then been admitted to listing, trading and/or quotation as soon as practicable after the relevant Reset Date. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5(c) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Trustee and the Holders and no liability to any such person will attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(d) *Distribution Deferral:*

- (i) *Optional Deferral:* The Issuer may, at its sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date (an “**Optionally Deferred Distribution Payment**”) by giving notice (an “**Optional Distribution Deferral Notice**”) to the Holders (in accordance with Condition 17 (*Notices*)) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date (an “**Optional Deferral Event**”) unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred. Any partial payment of outstanding Distribution (including any Arrears of Distribution and any Additional Distribution Amount) by the Issuer shall be shared by the Holders of all outstanding Securities on a pro-rata basis.
- (ii) *No obligation to pay:* The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 5(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*) and any failure to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall not constitute a default of the Issuer in respect of the Securities.
- (iii) *Requirements as to Notice:* Prior to publishing any Optional Distribution Deferral Notice, the Issuer shall, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, deliver to each of the Trustee and the Principal Paying Agent a certificate in the form scheduled to the Trust Deed signed by two directors of the Issuer confirming that an Optional Deferral Event has occurred and is continuing, and that no Compulsory Distribution Payment Event has occurred and is continuing.

The Trustee shall be entitled to accept and rely upon such certificate as sufficient evidence of the occurrence of an Optional Deferral Event, in which event it shall be conclusive and binding on the Holders.

- (iv) *Cumulative Deferral:* any Distribution deferred pursuant to this Condition 5(d) (*Distribution — Distribution Deferral*) shall constitute “**Arrears of Distribution**”. The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to this Condition 5(d) (*Distribution — Distribution Deferral*) except that this Condition 5(d)(iv) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall accrue distribution at the Rate of Distribution as if it constituted the principal of the Securities and the amount of such additional distribution (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 5 and shall be calculated by applying the Rate of Distribution to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 5. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(v) *Restrictions in the case of an Optional Deferral*: If the Dividend Stopper is specified in the Pricing Supplement as applicable, then if on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 5(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*), the Issuer shall not:

- (A) declare, pay or make any dividends, distributions or other payments on, and will procure that no dividend, distribution or other payment is declared, paid or made on any of its Relevant Obligations (Stopper) (except in relation to the Parity Obligations of the Issuer, on a pro-rata basis), save that such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
- (B) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Relevant Obligations (Stopper) (except in relation to the Parity Obligations of the Issuer, on a pro-rata basis), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants,

in each case, unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts or (ii) is permitted to do so by an Extraordinary Resolution of the Holders.

(vi) *Satisfaction of Arrears of Distribution by payment*: The Issuer:

- (A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 17 (*Notices*)), the Trustee and the Principal Paying Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be paid to the Holders of all outstanding Securities on a pro-rata basis; and
- (B) in any event shall satisfy any outstanding Arrears of Distribution deferred in accordance with Condition 5(d)(i) (*Distribution — Distribution Deferral — Optional Deferral*), in whole but not in part, and including any Additional Distribution Amount, on the earliest to occur of:
 - (1) the next Distribution Payment Date falling immediately after a breach of Condition 5(d)(v) (*Distribution — Distribution Deferral — Restrictions in the case of an Optional Deferral*);
 - (2) the date on which the Securities are redeemed at the option of the Issuer pursuant to Condition 6(b) (*Redemption and Purchase — Redemption at the option of the Issuer*);

(3) a Special Event Redemption Date; and

(4) the Winding-Up of the Issuer.

(vii) *No default*: Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any Distribution payment in accordance with this Condition 5(d) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 9 (*Non-payment*)) on the part of the Issuer.

6. Redemption and Purchase

(a) *No fixed redemption date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4 (*Status of the Securities*)) and without prejudice to Condition 9 (*Non-payment*)) only have the right to redeem or purchase them in accordance with the following provisions of this Condition 6.

(b) *Redemption for tax reasons*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Securityholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with distribution accrued (if any) to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Bermuda or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Securities; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

(a “**Withholding Tax Event**”) **provided, however, that** no such notice of redemption shall be given earlier than:

(A) where the Securities may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Securities were then due; or

(B) where the Securities may be redeemed only on a Distribution Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Distribution Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Securities were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred of and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Securityholders.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(b).

- (c) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Securityholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities or, as the case may be, the Securities specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).
- (d) *Redemption upon a Capital Event:* If the Capital Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Amount (Capital Event), if, immediately before giving such notice, the Issuer satisfies the Trustee that an amendment, clarification or change has occurred in the rules of relevant Rating Agencies or any of their respective successors to the rating business thereof, which amendment, clarification or change results in a lower equity credit for the Securities than the equity credit assigned on the Issue Date (a "**Capital Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

The Trustee shall be entitled to accept and rely upon such certificate as sufficient evidence of the satisfaction of the circumstances set out above, in which event it shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 6(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(d), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

- (e) *Redemption upon an Accounting Event:* If the Accounting Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Amount (Accounting Event), if, immediately before giving such notice, the Issuer satisfies the Trustee that as a result of any changes or amendments to HKFRS) or any other accounting standards that may replace HKFRS for the purposes of the consolidated financial statements of the Issuer (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 6(e), the Issuer shall deliver or procure that there is delivered to the Trustee:

- (i) a certificate, signed by two directors of the Issuer, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and
- (ii) an opinion, in form and substance satisfactory to the Trustee, of the Issuer's independent auditors stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 6(e), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(e) provided that such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as “equity” of the Issuer pursuant to the Relevant Accounting Standard.

- (f) *Redemption in the case of minimal outstanding amount:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on the Issuer giving not less than 30 nor more than 60 days’ notice to the Holders (which notice shall be irrevocable) at the Early Redemption Amount (Minimal Outstanding Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with Condition 15 (*Further Issues*)).

Upon expiry of any such notice as is referred to in this Condition 6(f), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(f).

- (g) *Partial redemption:* If the Securities are to be redeemed in part only on any date in accordance with Condition 6(c) (*Redemption at the option of the Issuer*), each Security shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Securities to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Securities on such date.
- (h) *No other redemption:* The Issuer shall not be entitled to redeem the Securities otherwise than as provided in paragraphs (a) to (f) above.
- (i) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Securities in the open market or otherwise and at any price, subject to any conditions specified in the relevant Pricing Supplement.
- (j) *Cancellation:* All Securities so redeemed or purchased by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.
- (k) *Calculations:* Neither the Trustee nor any of the Agents (other than the Calculation Agent and solely in respect of its functions as an appointment Calculation Agent of the Issuer) shall be responsible for calculating or verifying the calculations of any amount under any notice of redemption and shall not be liable to the Securityholders or any other person for not doing so.

7. Payments

- (a) *Principal:* Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in Renminbi and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

- (b) *Distribution*: Payments of distribution shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Security to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of distribution payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Securities are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Securityholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and distribution payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of distribution payable other than on redemption) on the due date for payment. A Holder of a Security shall not be entitled to any distribution or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Security, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.
- (f) *Record date*: Each payment in respect of a Security will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Security is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the close of business on the relevant Record Date.

So long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

8. Taxation

- (a) *Gross up*: All payments of principal and Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bermuda or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that

event, the Issuer shall pay such additional amounts as will result in receipt by the Securityholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Security:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Security by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Security; or
 - (ii) where the relevant Security or Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Security would have been entitled to such additional amounts on presenting or surrendering such Security or Certificate for payment on the last day of such period of 30 days; or
 - (iii) where such withholding or deduction is required pursuant to an agreement described in section 1471(b) of the Code, or is otherwise imposed pursuant to sections 1471 through 1474 of the Code and any regulations, agreements or undertakings thereunder or official interpretations thereof or other law implementing an intergovernmental approach thereto.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than Bermuda, references in these Conditions to Bermuda shall be construed as references to Bermuda and/or such other jurisdiction.

9. Non-payment

- (a) *Limited rights to institute proceedings:* Notwithstanding any of the provisions below in this Condition 9, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 5(d) (*Distribution — Distribution Deferral*). In addition, nothing in this Condition 9, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.
- (b) *Proceedings for Winding-Up:* Upon (i) an order being made or an effective resolution being passed for the Winding-Up of the Issuer or (ii) the Issuer failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 9(d) (*Non-payment — Entitlement of Trustee*), institute proceedings for the Winding-Up of the Issuer and/or prove and/or claim in the Winding-Up of the Issuer for the principal amount of the Securities together with Distribution, Arrears of Distribution and any Additional Distribution Amount accrued to the day prior to the commencement of the Winding-Up.
- (c) *Enforcement:* Without prejudice to Condition 9(b) (*Non-payment — Proceedings for Winding-Up*) but subject to the provisions of Condition 9(d) (*Non-payment — Entitlement of Trustee*), the Trustee may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, including any damages awarded for breach of any obligations), provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

- (d) *Entitlement of Trustee*: The Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution, shall take any of the actions referred to in Condition 9(b) (*Non-payment — Proceedings for Winding-Up*) or Condition 9(c) (*Non-Payment — Enforcement*) against the Issuer to enforce the terms of the Trust Deed or the Securities subject in any such case to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction.
- (e) *Right of Holders*: No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up of the Issuer or to prove or claim in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove or claim in such Winding-Up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 9 (*Non-payment*).
- (f) *Extent of Holders' remedy*: No remedy against the Issuer, other than as referred to in this Condition 9 (*Non-payment*), shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities under the Trust Deed.

10. Prescription

Claims for principal and distribution on redemption in respect of the Securities shall become void unless the relevant Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

11. Replacement of Securities

If any Security or Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar (and, if the Securities are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Securities or Certificates must be surrendered before replacements will be issued.

12. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified, pre-funded and/or provided with security and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Securityholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Securityholders as a class and will not be responsible for any consequence for individual Holders of Securities as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Securities and the Coupons, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Securityholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (i) the Issuer shall at all times maintain a principal paying agent and a registrar; and
- (ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (iii) if and for so long as the Securities are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Securityholders by the Issuer.

13. Meetings of Securityholders; Modification and Waiver

- (a) *Meetings of Securityholders:* The Trust Deed contains provisions for convening meetings of Securityholders to consider matters relating to the Securities, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee (subject to it being first indemnified, pre-funded and/or provided with security to its satisfaction) upon the request in writing of Securityholders holding not less than one-tenth of the aggregate principal amount of the outstanding Securities. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Securities or, at any adjourned meeting, two or more Persons being or representing Securityholders whatever the principal amount of the Securities held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Securityholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Securities form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Securityholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 90 per cent. of the aggregate principal amount of the then outstanding Securities who for the time being are entitled to receive notice of a meeting of Securityholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Securityholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Securityholders and to any modification of the Securities or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Securityholders, authorise or waive any proposed breach or breach of the Securities or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Securityholders as soon as practicable thereafter.

- (c) *Direction from Securityholders:* Notwithstanding anything to the contrary in these Conditions or the Trust Deed, whenever the Trustee is required or entitled by the terms of these Conditions or the Trust Deed to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Securityholders by way of an Extraordinary Resolution and shall have been indemnified, pre-funded and/or provided with security to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.
- (d) *Certificates and reports:* The Trustee may rely without liability to any Securityholder or to other person on a report, advice, opinion, confirmation or certificate from any lawyers, valuers, accountants (including the auditors, surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Trustee, and the Securityholders.

14. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Securities, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Securities or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified, pre-funded and/or provided with security to its satisfaction.

No Securityholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

15. Substitution or Variation

If Special Event Substitution or Variation is specified in the relevant Pricing Supplement as being applicable and a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 5 (*Distribution*) (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 15 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17 (*Notices*), the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 15 and subject to the receipt by it of the certificate of the directors of the Issuer referred to herein, on which it may rely absolutely) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 15, as the case may be.

In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) will be satisfied in full in accordance with the provisions of Condition 5(d) (*Distribution — Distribution Deferral*).

In connection with any substitution or variation in accordance with this Condition 15, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would give rise to a Special Event with respect to the Securities or the Qualifying Securities.

16. Further Issues

The Issuer may from time to time, without the consent of the Securityholders and in accordance with the Trust Deed, create and issue further Securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of distribution) so as to form a single series with the Securities. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of Securities having the benefit of the Trust Deed.

17. Notices

Notices to the Holders of Securities shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Securities are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices to the holders of Securities of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the holders of the Securities on the second day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg and/or the alternative clearing system, as the case may be.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Securities or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Securities, the Issuer shall indemnify each Securityholder, on the written demand of such Securityholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Securityholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

20. Governing Law and Jurisdiction

- (a) *Governing law:* The Securities and the Trust Deed and all non-contractual obligations arising out of or in connection with the Securities and the Trust Deed are governed by English law, except that the subordination provisions applicable to the Issuer set out in Condition 4 (*Status of the Securities*) and Clause 5.2 (*Status of the Securities*) of the Trust Deed shall be governed by, and construed in accordance with, Bermuda law.
- (b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Securities; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Securityholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Securityholders may take concurrent Proceedings in any number of jurisdictions.

SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes” and “Terms and Conditions of Securities”.

Initial Issue of Instruments

Global Notes and Global Certificates (each as defined in the Trust Deed) may be delivered on or prior to the original issue date of the Tranche to a Common Depositary for Euroclear and Clearstream.

Upon the initial deposit of a Global Note or Global Certificate with a common depositary for Euroclear and Clearstream (the “**Common Depositary**”) and/or registration of Registered Instruments in the name of any nominee for Euroclear and Clearstream, Euroclear or Clearstream (as the case may be) will credit each subscriber with a nominal amount of Instruments equal to the nominal amount thereof for which it has subscribed and paid.

Instruments that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Instruments that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”) as the holder of an Instrument represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his/her share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Instrument, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instrument for so long as the Instruments are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Instruments, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme — Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Trust Deed for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Trust Deed, exchange of the temporary Global Note for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. The payment in respect of a Note issued under TEFRA D may not be collected without certificate as to non-U.S. beneficial ownership.

Further Issues

In respect of a Note issued under TEFRA D, for the purpose of dealing in Euroclear or Clearstream, any further issue of Notes by the Issuer pursuant to Note Condition 19 may not be consolidated and form a single series with the outstanding securities of any series (including the Notes) until the exchange of interests in a Temporary Global Note for interests in a Permanent Global Note upon the relevant certification.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear, Clearstream or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or any of the circumstances described in Condition 13 occur, or on the expiry of such period of notice as may be specified in the Pricing Supplement, at any time, if so specified in the Pricing Supplement.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Instruments held in Euroclear, Clearstream or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Instruments within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Instruments may be withdrawn from the relevant clearing system. Transfer of the holding of Instruments represented by any Global Certificate pursuant to Note Condition 2(f) and Conditions and Security Condition 3(d) of the Security Conditions may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Certificate is exchanged for an Individual Certificate), such Individual Certificate shall be issued in Specified Denomination(s) only. A Noteholder or Securityholder (as the case may be) who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive certificate in respect of such holding and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or more Specified Denominations.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent.

In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will

be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Instruments that they represent, some of which modify the effect of the terms and conditions of the Instruments set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused.

Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Trust Deed. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of “business day” set out in Note Condition 2.

All payments in respect of Instruments represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of a permanent Global Note (in the case of the Notes only) or of the Instruments represented by a Global Certificate shall (unless such permanent Global Note represents only one Note or Global Certificate represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders or Securityholders (as applicable) and, at any such meeting, the holder of a permanent Global Note (in the case of the Notes only) or of the Instruments represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Instruments. All holders of Registered Instruments are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Instruments comprising such Noteholders or Securityholders holding, whether or not represented by a Global Certificate.

Electronic Consents

In addition to the holding of a meeting of holders of Notes or Securities, as the case may be, or the passing of an Extraordinary Resolution by way of written resolution, the Trust Deed sets out provisions for resolutions of the holders of Notes or Securities to be effected by way of electronic consents communicated through the electronic communications system of the relevant clearing system(s) by not less than 75 per cent in nominal amount of the relevant series of Instruments outstanding.

Cancellation

Cancellation of any Note represented by a permanent Global Note or any Instrument represented by a Global Certificate that is required by the Note Conditions or the Security Conditions (as appropriate) to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate (as appropriate) or its presentation to or to the order of the Principal Paying Agent for endorsement in the relevant schedule of such permanent Global Note or in the case of a Global Certificate, representing either Securities or Notes, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a permanent Global Note or Instruments represented by a Global Certificate may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of the Issuer provided for in the Conditions while such Instruments are represented by a permanent Global Note (in the case of the Notes only) or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders or Securityholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Instruments drawn in the case of a partial exercise of an option and accordingly no drawing of Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream or any other clearing system (as the case may be).

Noteholders' and Securityholders' Options

Any option of the Noteholders and Securityholders provided for in the Conditions while such Instruments are represented by a permanent Global Note or Global Certificate, as the case may be exercised by the holder of the permanent Global Note or Global Certificate, as the case may be giving notice to the Principal Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised and the option may be exercised in respect of the whole or any part of the permanent Global Note or Global Certificate, as the case may be, and stating the nominal amount of Instruments in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate, as the case may be to the Principal Paying Agent, for notation. Any option of the Noteholders or Securityholders provided for in the Conditions of any Instruments while such Instruments are represented by a Global Certificate may be exercised in respect of all or some of the Instruments represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders or Securityholders while any Global Note is held on behalf of, or Registered Instruments are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Instruments and may consider such interest if such accountholders were the holders of the Instruments represented by such Global Note or the relevant Global Certificate, as the case may be.

Notices

So long as any Instruments are represented by a Global Note or a Global Certificate (whichever is applicable) and such Global Note or Global Certificate (whichever is applicable) is held on behalf of Euroclear and/or Clearstream or any other clearing system, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

USE OF PROCEEDS

The Issuer intends to use the net proceeds from the issue of the Instruments for refinancing the Group's long-term indebtedness, working capital and for the Group's general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

The following table sets out our capitalisation and indebtedness as derived from our audited consolidated financial statements as at 31 December 2019, prepared in accordance with Hong Kong Financial Reporting Standards. The table should be read in conjunction with our audited consolidated financial statements as at 31 December 2019 and the notes thereto included in this Offering Circular.

	As at 31 December 2019 (in US\$ million)
Indebtedness	(Audited)
Short-term debt ⁽¹⁾	497
Long-term debt ⁽²⁾	1,095
Shareholders' funds ⁽³⁾	1,264
Holders of perpetual securities	656
Total capitalisation and indebtedness ⁽⁴⁾	3,512

Notes:

- (1) Short-term debt comprises short-term bank loans, current portion of long-term notes and current portion of lease liabilities.
- (2) Long-term debt comprises long-term bank loans, long-term notes and non-current portion of lease liabilities.
- (3) Shareholders' funds attributable to the Company's Shareholders comprise ordinary shares, reserves and retained earnings, excluding non-controlling interests, as at 31 December 2019.
- (4) For the purpose of this capitalisation and indebtedness table, total indebtedness only includes short-term debt and long-term debt. Total capitalisation and indebtedness comprises long-term debt, short-term debt and holders of perpetual securities.

Except as otherwise disclosed in this Offering Circular, there has been no material adverse change in our consolidated capitalisation and indebtedness since 31 December 2019.

DESCRIPTION OF THE GROUP

OVERVIEW

We are the world's leading supply chain solutions partner for consumer brands and retailers, measured by turnover (approximately US\$11,413 million for the year ended 31 December 2019). We specialise in responsible supply chain management of high-volume, time-sensitive goods for leading retailers and brands worldwide via an extensive global network. We have a history that can be traced back to 1906 and have played a key role in the development of the global supply chain over the past century.

We provide sophisticated, end-to-end supply chain solutions to meet customers' specific needs and play an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process by providing crucial support, ranging from product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions. Our customer base includes a diverse range of brands and retailers including brands speciality stores, department stores, big box retailers, e-commerce players, clubs, hypermarkets and off-price retailers.

Our spectrum of services covers the entire supply chain and spans a range of consumer products, from soft goods, such as fashion apparel, children's wear, sportswear, outerwear, handbags and accessories (which constituted around 73% of the Group's business by turnover for the year ended 31 December 2019 excluding the logistics business), to hardgoods, such as footwear, home decor and textiles, seasonal products and gifts (which constituted around 27% of the Group's turnover for the year ended 31 December 2019 excluding the logistics business and Discontinued Operations), with the end products being sold to consumers through multiple channels. Turnover from our logistics business constituted around 10% of the Group's turnover for the year ended 31 December 2019.

Business Model

We have over 230 offices and 270 distribution centres with around 16,796 employees across 50 economies globally spanning the Americas, Europe, Africa and Asia Pacific. Our global sourcing network of suppliers conforms to strict quality assurance testing through factory evaluations, laboratory testing, on site production monitoring and multiple inspections. With our local market knowledge, our network has the capacity and flexibility to respond rapidly to evolving consumer trends and to react to market disruptions. The Group's turnover for the year ended 31 December 2019 is divided among geographical areas as follows: U.S. — 65%; Europe — 18%; Asia — 11%; Rest of World — 6%.

Since late 2018, we have initiated a significant Company-wide reorganisation followed by key leadership appointments, including in the roles of Chief Operating Officer (“COO”) in October 2018 to lead the sourcing and production platform, Chief Digital Officer (“CDO”) in early January 2019 to lead the digital drive, and Group President in late January 2019 to focus on account management and business development, making one of the most significant changes in our recent operating history.

The reorganisation was designed to (1) strengthen customer relationships with focused account management and business development teams, (2) achieve operational excellence in our sourcing and production platform, and (3) accelerate digitalization. Under the new structure, our teams are focused on more specialised areas to improve agility and operational efficiency.

Following such reorganisation, we now operate through two reorganised segments, the Services segment and the Products segment:

- (a) **Services Segment.** Our Services segment is organised according to two business lines, “**Supply Chain Solutions**” which encompasses most of our agency services business and certain of the products of our principal-trading services business and “**Logistics Services**” which incorporates the former Logistics Network business segment. Under the Services segment we provide end-to-end supply chain solutions, from product design, raw materials procurement, production and quality control, to warehouse management and last-mile delivery to retail stores or end-consumers. Cross-selling between Supply Chain Solutions and Logistics Services has brought more revenue opportunities, attracted new customers and further solidified our relationships with customers.

Supply Chain Solutions 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 base for services that can improve their operational efficiencies and compliance levels.

Logistics Services comprises Asia-focused in-country logistics and global freight management. In-country logistics includes warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services. Global freight management offers cargo consolidation and deconsolidation, freight forwarding and customs clearance. 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 sought to offer our customers higher value services such as 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, our transport business has grown significantly.

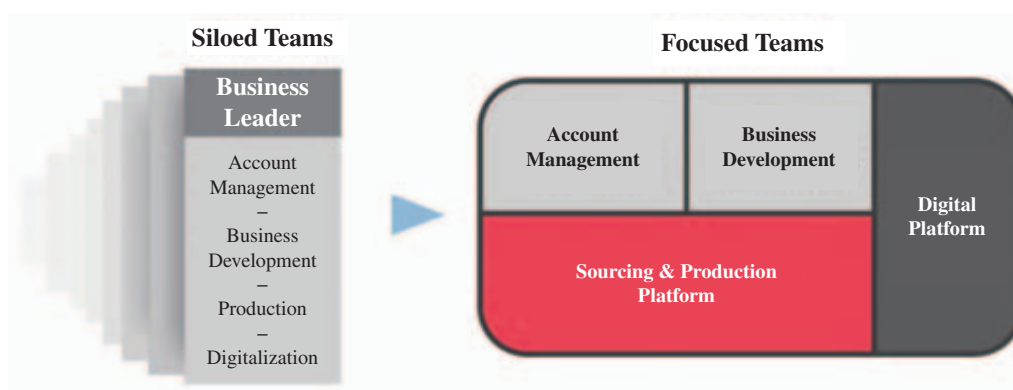
- (b) **Products Segment.** Our Products segment now consists of our onshore wholesale business in three markets — the Americas, Europe and Asia (the “**Onshore Wholesale Business**”) to supply apparel to mainly the same customer base as our Supply Chain Solutions business with the Group acting as an onshore importer for customers. As a principal trader, we sell to our customers’ in-house buying offices and are responsible for services ranging from product design and development to production, quality control and local logistics. Although the terms of each order are agreed on a per-programme basis, our relationships with customers of our Onshore Wholesale Business are typically long-term and strategic in nature.

The Group President, Joseph Phi, oversees both account management and business development in the Supply Chain Solutions business. We have adopted a “3x3 Strategy” through which we place equal emphasis on three “soft” aspects of customer relationship management (being “people first”, “operations centric” and “customer obsessed”) and three “hard” aspects of customer relationship management (being “operations excellence”, “account management” and “business development”). On the soft side, we are seeking to instill in our teams a philosophy that increased revenue will come from customers who are delighted by the experiences we create, operations-centric behaviours that are measured and incentivised, and improving customer satisfaction.

On the hard side, we have put in place a key performance indicator (“**KPI**”) dashboard that tracks operational excellence metrics which are aligned with the individual goals of customers and vendors. Following the system’s implementation, KPIs such as on-time delivery rates and claim rates have improved and customer satisfaction has increased.

Dedicated account managers now have more time to focus on serving top customers and increasing revenues from such customers. In addition to focusing on key customers, we began reviewing the tail of our customer base, with emphasis on sustainable profitability and risk management. As a result we have reduced the business we do with some higher-risk customers as well as with small-scale customers despite the higher margins that came with their orders. This has resulted in temporary pressure on turnover and total margin but stronger risk control and resource allocation.

On the business development side, our efforts have been strengthened by our leadership in digital services and the geographic diversity of our sourcing network. Under the leadership of our new COO, Wilson Zhu, the old, siloed organisational model that was in place for many years has been replaced by a country-centric model, in which all businesses within a country integrate their resources for increased leverage, better communications and improved vendor management.



Historical silos have been broken down; and replaced by a unified platform that transcends geographical borders and capitalises on our scale. In each production country, new leaders with production knowledge and experience have been appointed, taking over from account managers who made decisions remotely under the old structure. These new leaders are empowered to manage the execution all of sourcing and production activities with vendors to enable faster, more accurate decisions on the ground and be better positioned to support account management teams. Operating with more autonomy, we believe that country leaders will also be able to foster deeper relationships with vendors.

Financial Performance

For the year ended 31 December 2019, the Group's 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 our Supply Chain Solutions business and the termination of non-strategic customer relationships. This was offset in part by new customer wins and market share gains for key customers, particularly in Logistics. For Supply Chain Solutions, customers have continued to adopt the Group's 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.

Core operating profit ("COP") for the Group 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 the Group's 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%.

As at 31 December 2019, the Group 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 utilised. Unused limits for bank loans and overdraft facilities amounted to US\$1,253 million, with US\$556 million being unused committed facilities. As at 31 December 2019, the Group's gearing ratio was 10%, 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 equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

Three-Year Plan (2017-2019)

2019 marked the end of the Group's Three-Year Plan (2017-2019) where the goal was to create the Supply Chain of the Future by focusing on Speed, Innovation and Digitalization to help the customers navigate the digital economy and to improve the lives of one billion people in the supply chain.

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.

Our development 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 are 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, with key management appointments and setting the foundation for the future transformation.

Logistics

Our Logistics business has grown significantly, since it became part of the Group in 2010, benefitting from rising middle-class consumption, in Asia, the growth of e-commerce, logistics, and geographic and vertical expansion.

In order to further accelerate the growth of the Logistics business, we had originally planned to seek a separate listing of the Logistics business on the Hong Kong Stock Exchange. However, after considering market conditions and geopolitical uncertainties, on 28 June 2019 we entered into a subscription agreement with Dahlia Investments, an indirect wholly owned subsidiary of Temasek, under which Dahlia Investments agreed to subscribe for an approximate 21.7% stake in LF Logistics for cash consideration of US\$300 million. The transaction completed on 8 August 2019.

Through this transaction, we have not only accomplished some of the objectives we wanted to achieve through the spin-off IPO of LF Logistics, but also brought in a reputable long-term investor. We believe that the Temasek Investment will help accelerate LF Logistics' business growth and enhance the Group's capital structure and financial flexibility. We remain the controlling shareholder of LF Logistics and continue to consolidate its results in our financial statements.

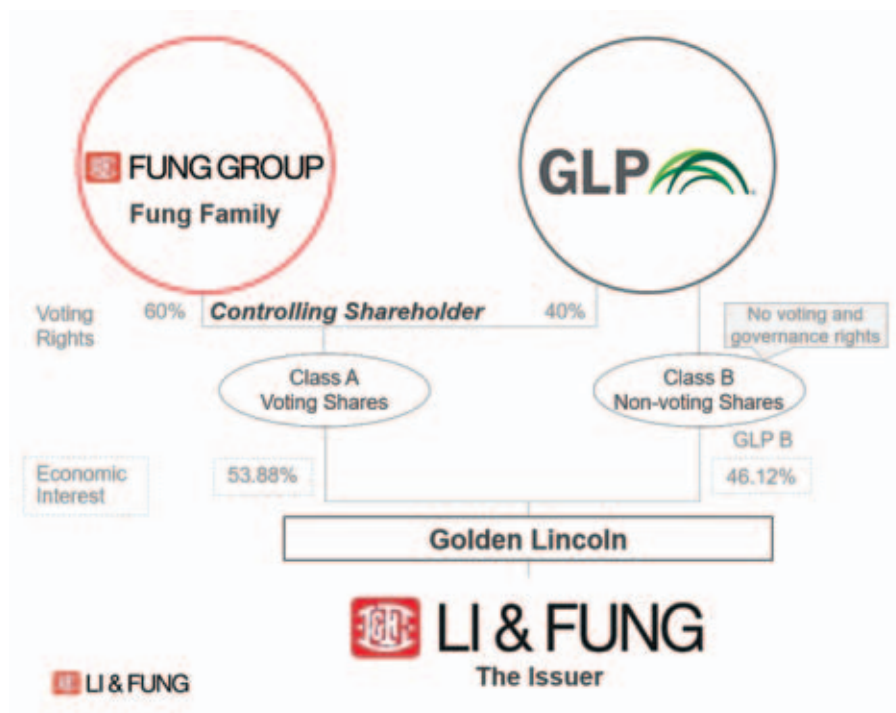
RECENT DEVELOPMENT

Privatization of the Issuer

On 20 March 2020, the Company received a request from Golden Lincoln Holdings I Limited (the "Offeror"), a special purpose vehicle established by the Fung family and GLP Pte. Ltd. to put forward a proposal to privatize the Company (the "Privatization") by way of a scheme of arrangement (the "Scheme"). The Fung family holds 60% of the voting shares in the holding company of the Issuer.

The Privatization was subsequently approved by independent shareholders and the Scheme became effective on 26 May 2020. The listing of the Company's shares was withdrawn from the Hong Kong Stock Exchange on 27 May 2020. The Privatization is expected to facilitate a transformation of the business amid challenging market environments alongside GLP as a strategic shareholder who is a leading global operator and investor in logistics, real estate, infrastructure, finance and related technologies with strong track record. No incremental financial indebtedness of the Issuer was required to implement the Scheme.

Following completion of the Privatization, the Issuer's shareholding structure was as follows:



In light of the digital disruption to the retail industry, the Issuer has undertaken restructuring efforts to reposition its businesses and to improve its competitive advantage. With the COVID-19 virus outbreak and macroeconomic uncertainties, the Issuer's transformation will involve execution risk and the associated benefits will require a longer time to materialize. The Issuer believes that the transformational efforts it is currently undertaking will require deeper restructuring efforts and further investments in technology, infrastructure, and talent. Despite the ongoing challenges, the Offeror has indicated that it remains committed to the Issuer's long-term prospects. The Offeror has indicated that it plans to contribute financial and operational resources to the Issuer in order to reinvigorate growth, seek out new business opportunities, and affirm its long-term preeminent position in the market.

The Issuer intends to continue to make available its annual audited financial statements and half-yearly unaudited financial statements on its website to existing and (at the discretion of the Issuer) prospective noteholders. However, as a result of completion of the Privatization, the Issuer will no longer prepare and publish an annual report or an interim report or be required to publicly announce its annual or half-yearly financial statements.

Strategic investment from JD.com to accelerate development of digital supply chain

Following on from the Privatization, on 31 July 2020 JD.com invested US\$100 million in the Issuer via the holding company of the Issuer. The purpose behind this strategic investment is to accelerate the development of the digital supply chain with a proven digital partner. The Issuer also plans to grow its business in China by partnering with JD.com on private label initiatives for the China domestic market by leveraging the Issuer's global network and digital supply chain.

As a leading technology driven e-commerce company, the Issuer believes that JD.com fits well with the Issuer's goal of creating the Supply Chain of the Future. JD.com has been developing proprietary supply chain technologies for many years and has created digital retail and supply chain platforms that are fully integrated to support its omni channel strategies.

With the new partnership between the Fung family and GLP, together with the addition of JD.com as a strategic investor, the Issuer is aiming to leverage its scale and digital capabilities to continue its journey of creating an end-to-end digital supply chain. Following completion of the JD.com strategic investment, the Fung family continues to retain control of the Issuer by holding 60% of the voting shares in the holding company of the Issuer.

We are employing measures in response to the COVID-19 pandemic

The COVID-19 virus pandemic is one of the most disruptive events in recent history, and is causing an unprecedented and simultaneous supply and demand disruption globally. China, where the outbreak and disruption started, has already seen a rebound and a degree of normalization of supply and demand, although this continues to be affected by localized re-emergences of the virus. However, the slowdown of global demand, coupled with shut-down in multiple production countries, are causing major disruption to global supply chains. Impact is still not known but this is resulting in a major uncertainty in the global economy.

We have been closely monitoring the COVID-19 pandemic situation and have implemented contingency plans and actions by leveraging our deep global diversified network. We believe our existing network positions us strongly to help our customers mitigate this supply chain disruption.

To date, we have taken the following actions:

- setting up a global crisis management team to ensure global supply chain operations, business continuity, as well as health and safety of staff;
- implementing work-from-home measures and using various digital technology ensuring that no material operations were disrupted;
- coordinating with vendors and suppliers to minimise delays of shipments from various production countries;
- providing regular and timely COVID-19 updates regarding supply chain to customers based on our local on-the-ground presence;
- reducing all non-essential expenses and capital expenditures; restructuring staffs to right size the Issuer to improve efficiency and effectiveness; and
- accelerating the 3D digital product adoption at customers to ensure continuation of product development cycle for products to be made for the next seasons.

Our expected financial performance for the six months ended 30 June 2020

We are in the process of preparing our financial results for six months ended 30 June 2020. Set forth below are preliminary estimates of certain financial results that, based on available information to date, we expect to report as at and for the six months ended 30 June 2020.

The data presented below is preliminary and unaudited, based upon our estimates, and subject to further internal review by our management and compilation of actual results. We have provided ranges for this data primarily because our closing procedures for the financial results for the six months ended 30 June 2020 are not yet complete. Our management's estimates are based upon information currently available from our businesses. While we expect that our results will be within these ranges and/or consistent with these estimates, our actual results may differ materially from these preliminary estimates and may not reflect the Issuer's financial condition, results of operations and results for the full fiscal year. All of the information presented below has been prepared by and is the responsibility of our management. Our auditor, PricewaterhouseCoopers, has not audited, reviewed, compiled, or performed any procedures with respect to our accompanying preliminary estimates, and accordingly does not express an opinion or any other form of assurance with respect to this information. Consequently, the data presented below should not be relied upon by potential investors to provide the same quality of information associated with financial statements that

have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results. In addition, the data presented below has not been independently verified and no representation or warranty, express or implied, is made or given by or on behalf of the Managers and no reliance should be placed on, the accuracy, completeness or fairness of the information or opinions contained in this presentation. No representation as to the sufficiency and accuracy of such financial statements is or has been made and any obligation to update, or to announce publicly any revision to, any of the preliminary estimates contained in this presentation to reflect actual results is disclaimed. The Managers disclaim any liability assumed by any data to the fullest extent permitted by law.

We operate through the business lines below:

1. **Supply Chain Solutions ("SCS")** – which consists of strategic supply chain services, from product design and development to raw material and factory sourcing as well as manufacturing control for brands and retailers, with a diverse customer base that includes brands, specialty stores, department stores, big box retailers, e-commerce players, hypermarkets, off-price retailers and clubs.
2. **Onshore Wholesale** – which consists of operating as an onshore supplier in the Americas, Europe and Asia, supplying apparel and hard goods to largely the same customer base as the SCS business.
3. **Logistics (the "Logistics Business")** – which comprises Asia-focused in-country logistics business and the global freight management business.

SCS and Onshore Wholesale collectively are referred to as the **"Trading Business"**

- Turnover is expected to be in the range of US\$3,300 million to US\$3,450 million for the six months ended 30 June 2020, a 36% to 38% decrease compared to US\$5,356 million for the same period in 2019, primarily due to the COVID-19 impact on the U.S. and European retail sectors, which negatively impacted our Trading Business. Our Asia-based Logistics Business has shown resilience with total turnover largely flat as compared to the same period in 2019, with solid performance in China during the second quarter of 2020.
- Core operating profit ("**COP**")² is expected to be in the range of US\$10 million to US\$15 million for the six months ended 30 June 2020, a 86% to 90% decrease compared to US\$105 million for the same period in 2019, primarily due to the reduction in turnover of the Trading Business. There organization efforts implemented in the past year have generated meaningful results with associated cost reductions which partially offset the negative impact from the Turnover reduction. We have accelerated our productivity drive and reorganization efforts to significantly reduce costs further during the second quarter of 2020, which is expected to yield incremental benefits for the second half of 2020 and beyond. We will also use the "zero-based" approach to further restructure our Company to optimize our size and operations to maintain long-term sustainable cash flows and profitability.
- EBITDA^{1,2} is expected to be in the range of US\$120 million to US\$125 million for the six months ended 30 June 2020, a 44% to 46% decrease compared to US\$222 million for the same period in 2019. While our corporate overheads are relatively fixed in nature to support our global network and our listing status (up until 27 May 2020), we also started to implement initiatives to reduce our corporate overheads post Privatization to bring in additional operating leverage to us.
- Turnover for our Trading business is expected to be in the range of US\$2,750 million to US\$2,850 million for the six months ended 30 June 2020, a 41% to 43% decrease compared to US\$4,810 million for the same period in 2019. Turnover for the SCS business is expected to be in the range of US\$2,300 million to US\$2,350 million for the six months ended 30 June 2020, a 43% to 44% decrease compared

¹ EBITDA represents Core Operating Profit (COP) adjusted for depreciation and amortization, employee share award & share option expenses and other non-cash expenses.

² Core operating profit and depreciation and amortization reflected the impacts from the capitalized leases on the adoption of new accounting standard, HKFRS 16.

to US\$4,144 million for the same period in 2019, primarily due to the impact of COVID-19 on customers, in particular in the US, with some customers completely stopping shipments during the month of April due to store closures. Many of the customers have gradually resumed shipments starting in May. However, bankruptcies of certain customers and proactive exits from other non-strategic customers have further negatively impacted our turnover. Due to a flight to quality by our customers and our ability to manage the global supply chain during the pandemic, we have also achieved market share gains with some key customers and have won new customers during the same period. Our efforts in further strengthening our operational excellence and customer engagement have also begun to pay off.

- Turnover for the Onshore Wholesale business is expected to be in the range of US\$450 million to US\$500 million for the six months 30 June 2020, a 25% to 32% decrease compared to US\$666 million for the same period in 2019. The Onshore Wholesale business has shown a stronger resilience to COVID-19 as a significant portion of its customers are for grocery related retailers, which experienced higher footfall traffic during the pandemic.
- COP for the Trading business (SCS plus Onshore Wholesale) is expected to be an operating loss within the range of US\$(27) million to US\$(30) million for the six months ended 30 June 2020, as compared to US\$62 million profit for the same period in 2019. Our transformational changes with the establishment of a strengthened, country-centric sourcing and production platform, as well as customer-focused account management efforts have begun to yield results. With our continued efforts to optimize the size of our organization, and enhance our operating efficiency and productivity through technology and process improvement, we achieved a reduction of over 20% in operating costs for our Trading business during the six months ended 30 June 2020 as compared to the same period in 2019.
- Our Asia-focused Logistics business continued to deliver top line performance and profitability despite the challenging and highly competitive market conditions. Turnover for our Logistics business is expected to be in the range of US\$550 million to US\$600 million for the six months ended 30 June 2020, which is in the range of a slight 2% decrease to a 7% increase compared to US\$563 million for the six months ended 30 June 2019. China maintained its profitable momentum, especially in e-logistics, which benefited from the increase in e-commerce activities which led to a slight increase in our total in-country logistics turnover for the six months ended 30 June 2020 as compared to the same period in 2019 in spite of China's shut-down during the first two months of 2020. Our global freight management business also experienced some rebound in global freight activities during the second quarter of 2020, with a modest decline in turnover for the six months ended 30 June 2020 as compared to the same period in 2019.
- COP for our Logistics business is expected to be in the range of US\$38 million to US\$42 million for the six months ended 30 June 2020, a 2% to 12% decrease compared to US\$43 million for the same period in 2019. Our Asia-based Logistics business, with a strong focus in China, has allowed our Logistics business to experience a solid recovery during the second quarter of 2020 when the COVID-19 situation in China improved. We have continued to win new business and increase market share during 2020 as customers look for high quality and reliable logistics services providers.

As at 30 June 2020, short-term debt (which comprises short-term bank loans) is expected to be in the range of US\$385 million to US\$395 million, long-term bank loans are expected to be approximately US\$180 million. The bank loans balance increased from US\$305 million in 2019 to be in the range of US\$565 million to US\$575 million, primarily to provide temporary funding for increased working capital needs under the impact of COVID-19. The total bond balance had correspondingly decreased from US\$871 million in 2019 to approximately US\$500 million as at 30 June 2020, resulting in over US\$100 million reduction in total borrowing during the six months ended 30 June 2020. Our total equity is expected to be approximately US\$2,020 million, which comprised shareholders' funds attributable to shareholders of approximately US\$1,175 million (before accounting for US\$100 million strategic investment from JD.com announced on 31 July 2020), holders of perpetual capital securities of approximately US\$650 million, and minority interests of approximately US\$195 million. As a result of the repayment of the US\$375 million bonds due in May 2020, and the temporary funding of working capital to maintain the supply chain funds flow, our cash and bank balances are expected to be in the range of US\$370 million to US\$390 million as at 30 June 2020 (before accounting for US\$100 million strategic investment from JD.com announced on 31 July 2020).

COMPETITIVE STRENGTHS

The Group's key competitive strengths include:

Global scale and efficiency

The demand for shorter lead times and a wider assortment of products, combined with the broad geographic dispersal of production facilities across a large number of emerging markets, have made effective supply chain management a critical priority. For retailers and brands, operating and managing their supply chain is not typically a core competency and requires substantial resources in terms of fixed cost and management time.

We operate on a much larger scale than any of our individual customers' in-house sourcing offices. With our global network and extensive local presence in over 50 economies, we are able to realise significant operating leverage and cost savings. Our scale enables us to consolidate orders and procurement decisions, allocate production globally, standardise factory compliance and quality assurance, plan logistics arrangements, and offer our customers the most competitive pricing for their sourcing needs.

While the trade war between China and the US has become more protracted given the complex geopolitical and ideological backdrop, we believe it can present an opportunity for our large global network to move production between countries and manage potential shocks from tariff increases leveraging off our diversified sourcing network for consumer goods, which is one of the largest in the world.

We are playing an active role in helping our vendor base adapt to the shifts in global trade. First, many Chinese vendors have experienced sudden declines in their capacity utilisation rates as production of US-bound goods has moved to other countries. We were able to help them fill idle capacity with orders from Europe and elsewhere. At the same time, we continue to consolidate our vendor base, directing orders to key vendors to help them address surplus capacity. Second, many Chinese factory-owners want to expand and diversify their own production to other countries such as Vietnam, Pakistan and Bangladesh. Leveraging our local connections and deep government relationships in these countries, we are assisting our Chinese vendor base in navigating administrative procedures such as permit applications, understanding regulatory requirements and local labour conditions. Such knowledge-sharing further cements our relationships with vendors, especially in this moment of crisis.

End-to-end sourcing solution for brands and retailers

Sourcing supply chains have become increasingly complex over the years. Within this complex environment, we simplify the procurement process by providing comprehensive solutions to manage our customers' entire supply chain, starting from product design and raw materials procurement, to vendor compliance, production monitoring and warehouse logistics, to the final delivery of goods. We have a broad product range, from hardgoods to softgoods, and operate on a produce-to-order basis. We cater to every buying and product sourcing need of our diverse customer base whether they source on an agency or principal basis, and whether goods are shipped on a free-on-board (FOB) or landed-duty-paid (LDP) basis. We are also helping customers take their own digital leaps with design and development, visual planning and assorting and digital selling.

Flexibility and risk diversification

Our global network covers more than 50 economies, which allows for flexibility when moving orders from one production country to another to handle capacity constraints and satisfy customers' needs and reduces over-reliance on any particular economy. Within this global network, our top three sourcing countries are China, Vietnam and Bangladesh. While China accounted for approximately 43% of our sourcing unit volume, the remaining 50+ countries all have sizable sourcing operations, and we are one of the largest exporters of the product categories in which we trade in many of these countries. This comprehensive global network with strong local presence, long operating history and critical mass is one of our key competitive strengths. As the sourcing landscape continues to evolve with the shift of sourcing from China and multiple trade agreements in play, we are well positioned to scale our existing operations in individual countries to meet our customers' changing sourcing needs.

The Group's flexibility in adapting to the changing needs of the market and our ability to react quickly with solutions to any issues in the supply chain are an important part of the value we bring as a sourcing partner. Our on-the-ground teams, the large amount of transactions we engage in each day and our globally connected systems provide us with valuable insight into market dynamics and real-time analysis on the production capacity and the quality of our global network of suppliers. This knowledge and insight support our supply chain planning and management processes, including raw material procurement, order allocation and transfer and distribution of goods, to ensure that we achieve optimal utilisation and minimise risks of disruption in each element of the supply chain. Our network provides flexibility and risk diversification in an uncertain world.

Long standing customer relationships

Our customers are primarily leading retailers and brands in their respective markets and the Group has developed long standing and close relationships with many of its customers. Individual customers can benefit from dedicated teams that manage the full spectrum of supply change requirements, with tailored provision for individual specifications and needs. Most of our customers enter into open-ended engagements for our services with some customers preferring to contract on a multi-year basis (in most cases, ranging from 2 years to 8 years but renewable upon expiry). Apart from certain umbrella supply management contracts that provide for exclusivity, most of our contracts with our customers do not give us exclusivity. However, in practice, our customers often effectively work with us on an exclusive basis given our leading market position and capabilities. This results in effective partnerships of aligned interests, as well as providing the Group with insights into industry trends, allowing rapid response to market changes.

To secure new customers, we primarily rely on the reputation that we have established and on referrals by our existing customers. Our senior managers also travel extensively to secure new customers, and these efforts also help us diversify our customer base and to identify new labels which are becoming popular and companies which are expected to grow rapidly in their own markets.

Global supplier network and long-term supplier relationships

With a global network of suppliers, the Group has the experience, market knowledge and ability to negotiate on the basis of bulk purchases to ensure that lower cost supply options are available to our customers. The Group negotiates with suppliers on behalf of customers, either as agent or as principal. The Group's long history has enabled it to develop and maintain long term and trusted relationships with many suppliers who have consistently been able to meet the Group's quality control teams' requirements on production capacity, speed and quality. The Group also assists suppliers with enhancing core manufacturing strengths and provides production and quality control to facilitate timely delivery and compliance with customers' specifications. The Group enforces a rigorous Supplier Code of Conduct, a set of standards based on local and national laws and regulations, and International Labour Organization core conventions.

Market leading product design and development capabilities

The Group has product design and development teams across both softgoods and hardgoods. The Group provides design and development services according to customer needs and can take an initial design idea all the way through to production, or can provide in-house designers with development capabilities. The Group also conducts market research to provide customers with current customer trend information that may influence product designs. The Group's market studies and research cover issues affecting our customers at both the macro level (for example, consumer taste and market trends in product areas) and at the micro level (for example, developments in raw materials and fabrics).

Experienced management team with proven track record

The Group's management team has a successful track record in growing the business. The Group's management team represents some of the most experienced professionals in the global supply chain management industry with deep knowledge of international consumer markets and trends.

Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, our Honorary Chairman and Group Chairman, respectively, have successfully led the Group for more than 30 years, throughout which period they have been heavily involved with developing the concept of global supply chain management. Mr. Spencer Fung, our Group Chief Executive Officer, who joined the Group in 2001, was previously the President of LF Europe managing the Group's European distribution business. Mr. Joseph Chua Phi, who was appointed our Executive Director on 10 January 2018 and who joined the Group in 1999, is also the President of LF Logistics managing our logistics business as well as its data analytics and business development functions. Joseph has been appointed as Group President since January 2019 leading the Company's Supply Chain Solutions operating groups, including business development.

We believe the experience of our management team is important to maintaining our long-term relationships with our customers and to consolidating our strong financial performance. When we make acquisitions, we seek to structure the acquisition consideration such that we are able to retain the management of the acquired businesses by tying future payments to profitability targets. We have a demonstrated track record, through providing longer-term incentives, for retaining the key personnel of businesses we acquire. The majority of our current senior management team has joined us from companies which we have acquired. We believe that retaining such management is important to successfully integrating our acquired companies and for developing our business.

We also encourage our managers to take an entrepreneurial approach where each business portfolio is managed like the manager's own company. We have established schemes for profit sharing based on individual performance as well as on overall performance of the team or group.

Solid financial performance during difficult trading conditions

We have continued to deliver solid financial performance despite difficult trading conditions and competition in the retail markets. We are very focused on implementing our strategic goals and have been actively working with customers who are increasingly cautious in placing new orders during difficult trading conditions for the global retail industry.

In addition, we continue to take a cautious approach to managing our capital structure, including maintaining low levels of debt. The Group's gearing ratio was 10% as of 31 December 2019, calculated as net debt divided by total capital. Net debt of US\$244 million was calculated as total borrowings (i.e. aggregate of long-term notes and bank loans of US\$1,176 million) less cash and cash equivalents of US\$932 million as of 31 December 2019. Total capital was calculated as total equity of US\$2,113 million plus net debt of US\$244 million. Moreover, the Group had available bank loans and overdraft facilities of US\$1,558 million, of which US\$856 million were committed facilities. As of 31 December 2019, only US\$305 million of the Group's bank loans and overdraft facilities had been drawn down. Unused limits for bank loans and overdraft facilities amounted to US\$1,253 million, with US\$556 million being unused committed facilities.

Advanced technology infrastructure and applications

The Group's technology platform comprises two major elements: infrastructure and applications.

To support the operation of all office locations and for future growth, the Group has a global data centre located in Hong Kong and a regional data centre located in Manchester, England which, together with New York, form a communication hub triangle connecting all the countries and cities in which the Group operates. The Group has network coverage over all geographical locations with a combination of dedicated international leased lines and MPLS networks, providing a secure and wide area network to support all our voice, video and application platforms. The Group's applications facilitate the efficient and reliable sharing and dissemination of business information among our many employees, suppliers and customers globally, allowing effective management of end-to-end supply chain activities and shortened delivery cycles for customers.

The Group's customers are tightly integrated electronically with the Group via all current technology protocols, and utilising an industry leading integration platform to map customer integration data into order management and financial systems. An increasing number of our customers have come to us for digital services and assistance with integrating product development into their business processes.

The Group's proprietary order management system, running on an Oracle Database, can be accessed by all offices globally via our intranet or the internet. It incorporates a comprehensive database covering sourcing and export activities and enables customers to track information about their orders online.

All suppliers transact electronically via the web-based vendor portal, supporting the execution of activities including order acceptance, invoicing, quality control, compliance, inspections, shipping and document management. The Group's Digital Sourcing Portal connects our customers' data platforms with a global vendor base, digitises paper processes (such as order processing, monitoring and changes, inspection approvals and shipping) and orchestrates billing and payment (streamlining the flow of receivable funding requests from vendors).

BUSINESS STRATEGY

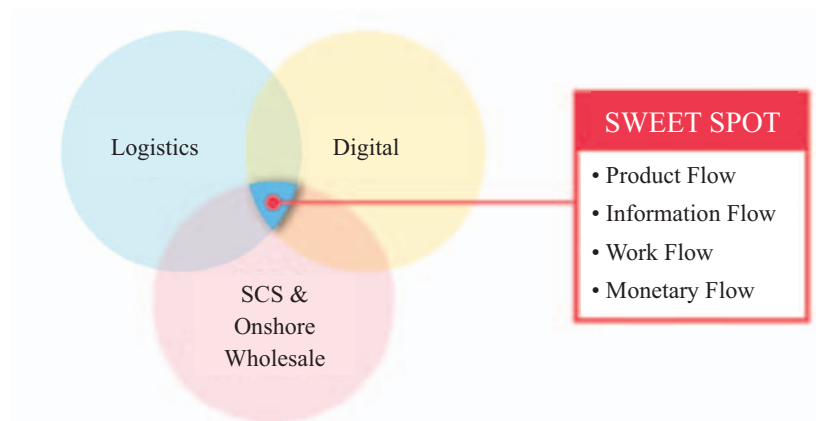
We expect the global trading environment will be highly disruptive and unpredictable. We have moved from a WTO-backed multilateral framework to one that is more fragmented with many countries striking bilateral trade deals among each other. The US-China trade war has taken centre stage in global trade 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 and under which we have set the long-term strategic direction of the Group and identified a number of key initiatives. 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.

Under our "2020 & Beyond Strategic Direction" we intend to strengthen our position and seek growth opportunities through the implementation of the following business strategies:

Leverage our scale and scope

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 capitalise on this powerful sweet spot to generate insights and business value for our customers and ourselves.



Productivity and efficiency also remain a key focus for the Group. We have set an ambitious target to improve productivity annually. To achieve this, we have mapped the entire end-to-end supply chain across all our stakeholders to identify overlaps and align roles to eliminate duplication of key processes. We are also re-examining our internal operations to streamline and focus our processes. For example, we are restructuring our pre-order process to be even more customer centric and consolidating our post-order processes to move them closer to the factories to ensure better coordination and performance. In addition, we are actively using different software to convert analog processes into digital formats and using more robots to automate certain tasks. The aim is to improve our efficiency and customer service KPIs and have a positive leverage of our cost base.

Focus on execution and operational excellence

We will be focusing on operational excellence and investing in digital capabilities as key enablers that will help us to 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.

We are creating three new centres of excellence (“COEs”), in denim, fabric and costing. The denim COE captures the megatrend of casualisation, 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.

We will be adopting a “People First” approach recognizing that our ability to deliver success rests on the ability and contribution of our people. In 2019 we introduced the new structure and leadership team 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.

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.

Invest in our End-to-End Digital Platform

Digitalization of the entire supply chain will drive speed and innovation. By digitising key aspects of the supply chain from product development, material costings and sampling, to the final creation and delivery of products, we are creating an end-to-end platform that will make customers' processes more seamless, efficient and cost effective enabling us to deliver data-driven insights and customised services. Since 2017 we have made significant progress in the implementation of our digitalization plan. We have built four platforms covering raw materials, 3D design, production tracking and vendor platforms. The dedicated 3D design team simplifies the product development process by creating 3D digital designs using a variety of digital tools and then aggregating these digital assets in a content library for direct use for e-commerce, virtual showrooms and runway displays. The production platform optimizes production with an integrated digital tracking application, which provides a streamlined view at every stage from pre-production to production and alerts merchandisers to defects and issues. The vendor platform is the central point of entry for our vendors to process orders and transactions, and it gives our vendors access to our other three platforms. Our overall digital platform connects suppliers, customers and other partners with end-to-end visibility and data analytics.

Since taking on the role in January 2019, our CDO, Darren Palfrey, has organised various applications into a unified platform to accelerate the build-out of our digital services. More customers are coming to us for digital services and assistance with integrating digital product development into their business processes. We are also helping customers take their own digital leaps with design and development, visual planning and assorting, and digital selling. We will continue to expand monetisation of our digital services through flexible pricing models that cater to the specific business needs of our customers. Models range from charging a fee per style, to full subscription to the LF Digital Platform. The unique value proposition we offer our customers enables us to enjoy higher margins compared with traditional supply chain solutions services.

Furthermore, our corporate development team has been active in working with our customers and suppliers to further accelerate and improve our digital services and our digital offering has already gained significant traction with our customers. Our 3D virtual design team is now the largest in the industry.

Organic growth

Through our current global network, we will further strengthen our organic growth initiatives by focusing on gaining new customers and developing additional business with existing customers. We continue to invest in nurturing long-term relationships with our customers to stay ahead of their needs by a deeper understanding of their business challenges and opportunities and supply chain requirements. We seek to maximise the share-of-wallet of our existing customers by exploring new ideas to improve efficiencies in their supply chain, offering differentiated products and services and developing innovative solutions, such as virtual sampling, radio-frequency identification (or RFID) and data analytics.

Selective and flexible expansion of our global sourcing network

We aim to continually enhance our sourcing network of suppliers and manufacturers to ensure that we have the flexibility and capability to move production to the best possible locations to meet our customers' needs. As we concentrate on products involving labour intensive manufacturing, our strategy is to seek markets in which barriers to entry are low, we have direct access to factories without any intermediaries in the production chain and cost-effective value for money labour skills are readily available. These are the key factors that enable us to provide even lower cost but higher quality products, thereby generating better value and higher margins. We are continually exploring new sourcing markets in order to diversify and balance our exposure to different markets.

In addition, we have a strong vendor compliance team that regularly monitors compliance and work with our suppliers to meet the Group's code of conduct, as well as industry and customer audit standards, protocols and methodologies.

Increase provision of services to vendors

Under Supply Chain Solutions we will continue to expand our customer base for services that can improve our vendors' operational efficiencies and compliance levels. We have introduced our total sourcing portal to digitally connect with all our vendors, launched bulk purchase programmes in raw material procurement and product liability insurance, developed working capital management tools and services for our suppliers, and initiated various vendor compliance services.

Our aim is to develop a holistic relationship with our existing vendors, deepen our local knowledge and partner with additional vendors in new locations around the world. Our focus on this area will further enhance the overall sustainability of the supply chain. In the long-term, we believe our efforts will increase vendor loyalty, strengthen our supply chain and enhance the quality of service we offer to our customers, all of which creates a win-win situation for every stakeholder in the supply chain.

Continuing to be asset light

We pursue an asset light strategy whereby we hold as few real estate and physical infrastructure assets as possible. Therefore, we focus on playing an instrumental role in orchestrating, coordinating and monitoring the entire manufacturing process, rather than owning the factories. This asset light approach is integral to providing end-to-end sourcing solutions and ensures that our sourcing capabilities are flexible and mobile and enables us to pursue lower cost sourcing options for our customers.

In past years, constant expansion of office space and change of office layout to accommodate our growth have rendered it necessary for us to acquire and control our offices in some of our major sourcing hubs. We have also acquired real estate along with some of our business acquisitions. Consistent with our asset light strategy, however, our intention is to dispose of our real estate if suitable "sale and lease back" arrangements can be negotiated with a suitable landlord at favourable rental rates and tenure of occupancy at arm's length, and supported by proper independent valuations.

Expanding logistics businesses in Asia

Asia's consumer markets present strong potential for long-term growth, and we aim to realise such potential by expanding our logistics businesses. Through operational excellence, best-in-class IT systems and data analytics, our logistics business can leverage our experience, expertise and supply chain insights to provide maximum value to our customers. In e-logistics, our proven ability to execute omni-channel retail strategy for our customers is a key competitive advantage. Omni-channel retailing is an integrated sales experience that combines the advantages of physical stores with the information-rich experience of online shopping. China is the new frontier of omni-channel driven consumption, and the Group is playing a leadership role in providing services to brands and retailers in this area by covering inventory and order management, warehouse pick and pack, online platform integration, and last mile delivery services and return management.

In addition, with more than 500,000 TEUs of shipping volume, we are one of the leading freight forwarders in China.

Accordingly, and riding on Asia's strong consumption theme, our logistics business is poised for strong profitable growth for years to come.

HISTORY

The Group was founded in Guangzhou, China in 1906 and was a forerunner in exporting Chinese products including those made of porcelain, silk, jade and ivory, as well as firecrackers and fireworks. The business was moved to Hong Kong in 1937 with the formal establishment of Li & Fung (1937) Limited (now known as Fung Holdings (1937) Limited) as a limited company in Hong Kong on 28 December 1937.

Fung Holdings (1937) Limited eventually expanded its range of goods for export to include garments, toys, electronics and plastic flowers. The company became one of Hong Kong's largest exporters. In April 1973, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, descendants of one of the founders, took Fung Holdings (1937) Limited public on the Hong Kong Stock Exchange. When China took steps to open its economy to foreign investment in 1979, Fung Holdings (1937) Limited started sourcing supplies from factories which had been relocated to Southern China and other parts of Asia and soon established a regional network of offices beyond Hong Kong to focus on servicing its various customers.

In 1989, Fung Holdings (1937) Limited was taken private to facilitate restructuring the business into two core areas: export trading and retail. Following the restructuring, the Issuer was incorporated in 1991 as the export trading arm of the Group and listed on the Hong Kong Stock Exchange in 1992.

The Group has made a number of key strategic acquisitions in the early part of this century (key large acquisitions include China Container Line, Visage, Jimlar, Integrated Distribution Services Group Limited, Loyaltex Apparel, TV Mania, Fishman & Tobin, Crimzon Rose and True Innovation) and has spun off or disposed of non-core businesses (such as Global Brands Group, which now has a separate listing on the Hong Kong Stock Exchange, our Asia consumer and healthcare distribution businesses and the Product Verticals Business). In addition, in August 2019, Temasek completed their strategic investment in an approximate 21.7% stake in LF Logistics.

In May 2020, the Company was again taken private and delisted to facilitate a transformation of the business alongside GLP as a new strategic shareholder.

GROUP STRUCTURE

The Company is the holding company of the Group and is incorporated in Bermuda with limited liability.

The Group is composed of a number of operating companies related to its core activities such as export trading, wholesale of goods, importing, apparel exporting, inspection services, design and marketing, commission agency, testing and technology consulting, trading of apparel, buying agency, manufacturing and trading, merchandising agency, packaging, freight forwarding, e-logistics and logistics services.

OUR BUSINESS

Global Business Networks

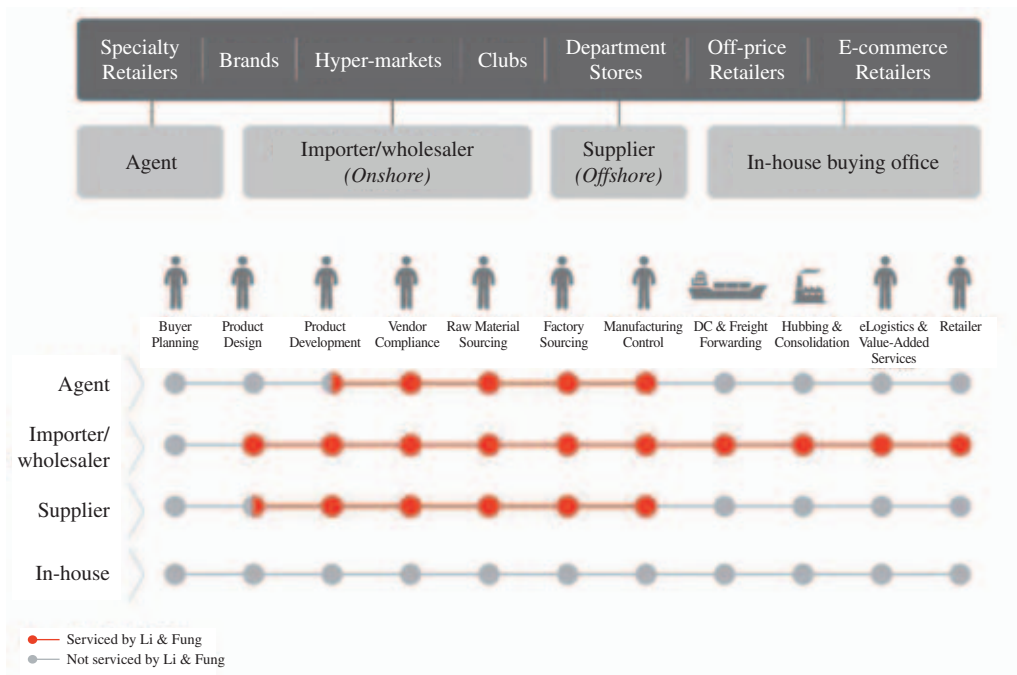
We are dedicated to delivering a global supply chain management service focused on our customers' ability to satisfy the demands of their consumers. We have evolved from orchestrating one single global sourcing network for customers to two core distinct yet interconnected segments — Services and Products, and operate around 230 offices with around 16,796 employees worldwide covering more than 50 economies as of 31 December 2019.

Multi-Channel Sourcing Platform

In Supply Chain Solutions (under our Services segment) and through our Products segment, we provide end-to-end sourcing solutions through our global network for a diverse mix of global brands and retail customers. Our multi-channel sourcing business model enables us to provide customers with both agency and principal-trading services regardless of how they source their products.

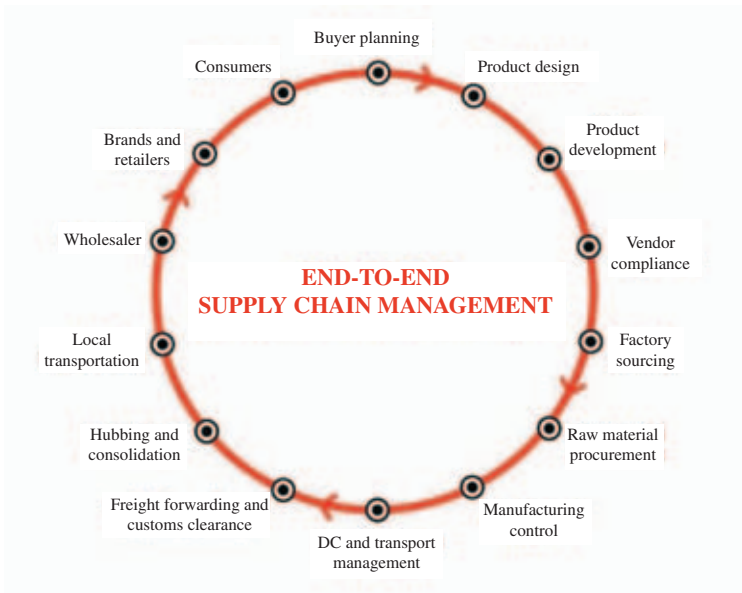
We allow customers to focus on retailing and branding, while ensuring speed to market and better cost and quality control for their sourcing needs. We believe multi-channel sourcing helps increase our coverage of our customers sourcing needs.

The following diagram illustrates our multi-channel sourcing platform.



We have evolved from a sourcing agent of finished goods for overseas buyers into a supply chain manager offering complete outsourcing solutions tailored to the specific needs of our individual customers. From product design, raw material sourcing and production management to quality control, logistics, shipping and other important functions, our spectrum of services covers the entire supply chain end to end.

Our supply chain consists of:



In the supply chain cycle we offer the following services:

- match the needs of customers regarding raw materials and production with the supplying and manufacturing capabilities of different regions;
- select the best countries and regions for sourcing and we orchestrate the manufacturing of products in factories around the world;

- oversee the sourcing, shipment, and allocation of raw materials and parts and components to various factories;
- offer technical support during the production process, for example in relation to the fit, wash and construction of apparel, to ensure that the product quality and each aspect of production complies with customers' requirements;
- orchestrate quick-response production by not only monitoring the supply of raw materials, but also managing our customers' inventory strategically and replenishing inventory for customers at the right time and quantity;
- arrange shipping and delivery services in the most cost-effective manner by planning for consolidated transportation; and
- apply information technology across the supply chain, from product development to identifying, managing and monitoring customer orders.

We believe that our complete end-to-end supply chain solutions, our long-established experience in sourcing, our coordinated global network of offices and distribution centres, and our strong management and customer service teams are major factors in attracting new customers as well as strengthening relationships with our existing customers. We have created an ecosystem of strategic partners and have entered into a number of cooperation arrangements with various technology start-ups and supply chain partners to develop and offer new supply chain services.

The retail landscape has been evolving as it adapts to changes in consumption behavior, developments in technology and the rise of e-commerce and borderless retail. In response to these changing market conditions with increased competition and margin pressure, our customers are actively adjusting their supply chain to procure differentiated products at competitive prices to maintain their market competitiveness. With our multi-channel sourcing platform, we are well positioned to serve our customers as they optimise their sourcing strategy and stay ahead of the market.

The combination of our agency and principal capabilities make the Group the leading global sourcing supplier, offering both types of services with scale and scope.

Agency based sourcing

Our agency-based sourcing services (in which we act as a strategic sourcing agent for our customers under multi-year contracts), together with the other services provided by Supply Chain Solutions, provide a steady turnover base and represent a significant part of our Group's turnover.

Principal trading business

In our principal trading businesses, we act as either an onshore importer or an offshore supplier to our customers, where the terms of each order are mutually agreed on a per programme basis. As a principal trader, we sell to our customers' in-house buying offices. In contrast to our agency role, we are responsible for product design all the way to local logistics tailored to specific customers' requirements. We are continuing to develop our product expertise and move deeper into product verticals to solidify our leadership position in specific product categories.

Development of the trading business

Buyers from brands and retailers source their products through multiple channels. Historically, buyers purchase fully-developed products from domestic importers or overseas traders ("**Principal Traders**"). A typical buying trip would involve a buyer visiting the showroom of a Principal Trader, who would design and product develop a collection of samples to fit the customer's brand image and target audience. The buyer would select a series of products from the samples and negotiate prices with the Principal Trader. Once the order was finalised, the Principal Trader would work with its vendor base to produce and deliver the products.

Over time, selected brands and retailers who wanted more control of the sourcing process have built their own in-house sourcing teams to work with overseas suppliers and factories, building up the standards of these factories, and managing the day-to-day order and production process. An outsourcing trend emerged as brands and retailers evaluated the economics and efficiencies of the in-house sourcing office. In a typical outsourcing arrangement, a sourcing agent serves as a trusted partner to take over the operations and tasks handled by the in-house sourcing staff based overseas, such as factory compliance, order processing, and manufacturing control and logistics. Through the Group's agency sourcing services, it has engaged with this outsourcing trend and acts as a strategic supply chain manager to handle the buying needs of brands and retail customers. Given its scale and scope, the Group has also provided customers with additional services such as trend forecasting, market intelligence, product development, raw material procurement, as well as strategic insights on the global supply chain. The outsourcing arrangement allows brands and retailers to focus their time on end consumers, with the more complicated, process-driven tasks to be handled by their sourcing partner.

While the internet has provided a platform to make it easier for overseas buyers to locate factories, the work required in managing the day-to-day order and production process with factories, as well as maintaining the proper compliance and quality control standards, remain critical elements in sourcing. In addition, over the past few decades production has moved out of the consumption markets in North America and Europe. While China has gained market share from this trend, the current trade war between the US and China is accelerating the relocation of production out of the relatively more expensive Chinese production bases to new markets such as Vietnam, Bangladesh, Cambodia, Indonesia and India. This production migration is making the sourcing process increasingly complicated, requiring brands and retailers to manage teams in frontier markets, where language, culture, infrastructure, compliance and productivity are varied. In addition, the production migration within China is also very dynamic and dispersing from traditional coastal areas to inland areas, and thus creating more complexity that requires an organisation, such as the Group, with an extensive China network to assist customers to navigate this process.

Today, buyers from brands and retailers source their products via all of these channels: in-house sourcing team, sourcing agent, or Principal Traders being either on-shore domestic or off-shore overseas. In terms of channel size and buying patterns, sourcing through domestic or overseas Principal Traders constitutes the majority of the sourcing volume in the market today. To capture this principal trading channel, the Group has also built up product-focused principal trading capabilities to act as a Principal Trader either as a domestic (on-shore) or overseas (off-shore) trading supplier to customers. In this principal trading business, the Group trades with customers as a principal by providing fully developed market-ready products to customers based on their needs and brand image. As a multi-channel sourcing supplier, the Group has full capabilities to fulfill customers' sourcing needs via either agency-based sourcing services, or product-focused principal solutions.

Credit control for customer selection

Our credit control team makes an assessment of each individual customer and vendor and determines the credit limits based on, among other factors, their trading and settlement histories as well as their respective financial backgrounds.

Logistics business

In Logistics Services (under our Services segment) we provide holistic, integrated solutions for our logistics customers through our in-country logistics and global freight management services. Unlike traditional logistics service providers, we have deep understanding of our customers' supply chains and product flows. Our knowledge and network along the entire global supply chain allow us to offer long-term collaborative solutions to our customers, making us their logistics partner of choice. We create value through execution excellence, operational efficiency and service innovation. As an asset-light operator, we optimise our resource allocation based on customer demand, and we enhance our flexibility and responsiveness through information technology and network sharing.

Our in-country logistics business offers Asia-focused logistics and supply chain solutions, and specialises in the key verticals of footwear and apparel, fast-moving consumer goods, food and beverage, retail and healthcare. We have a strong portfolio of blue-chip customers, servicing top-tier firms in our respective verticals. We provide a menu of contract logistics services under our in-country logistics business, including the traditional distribution centre management, order management, local (including last mile) transportation, as well as more innovative and sophisticated services, such as hubbing and consolidation, data analytics and e-logistics fulfillment services.

Our global freight management business offers full service international freight services, including procurement of international freight, freight consolidation and forwarding, and origin and destination cross-border logistics services. The scale of this business increased significantly following the acquisition of CCL in 2014. With more than half a million TEUs of shipping volume, we now offer our customers full container loads or consolidate less-than container load freight services in a cost effective and competitive manner.

Over the years, the logistics business has been built to complement the Group's global sourcing platform to help brand owners and retailers efficiently and effectively move products from the production source to the final consumer. The Group works closely with brands and retailers to help them optimise the flow of inventory and information, reducing cost and improving service levels.

Strategic Divestment of the Product Verticals Business

2019 marked the end of our current Three-Year Plan (2017-2019). We have determined that the Services segment would form the core part of the digitalised supply chain of the future and on 3 April 2018 we completed the divestment of the Product Verticals Business for a cash consideration of US\$1.1 billion (the “**Product Verticals Divestment**”).

The Product Verticals Divestment allows the Group to set the foundation for a more simplified organisation with greater agility and focus on its core competencies and its senior management team to focus resources on executing the 2017-2019 Three-Year Plan. In addition, the Product Verticals Business' growth strategy in each of the product categories necessitated further expansion upstream and downstream, requiring capital investment and management attention, which we believe is better achieved outside the Group.

The Product Verticals Divestment is a continuation of the Group's strategy to simplify its business following the spin-off of Global Brands Group Holding Limited in 2014 and the divestment of the consumer and healthcare distribution business in 2016.

The Product Verticals Business

The Product Verticals Business incorporated the majority of the Group's principal-based trading businesses from the Products segment.

The three product verticals subject to the Product Verticals Divestment were:

- furniture, primarily focusing on furniture and home furnishing;
- sweaters, primarily focusing on sweaters and knitwear; and
- beauty, primarily focusing on beauty products.

The Group's Business after the Product Verticals Divestment

Following completion of the Product Verticals Divestment, the Group will focus on:

- **Supply Chain Solutions:** offering end-to-end supply chain services typically on a fee basis, from product design and development to raw material and factory sourcing as well as manufacturing control. These services are all under the LF platform through which customers and vendors can access the suite of value-added services;
- **Logistics Business:** providing Asia-focused in-country logistics (including warehousing and transportation services, e-logistics, regional and global hub management, reverse logistics and other value-added services), as well as global freight management (including cargo consolidation and deconsolidation, freight forwarding and custom clearances); and
- **Onshore Wholesale Business:** operating as an onshore supplier in the Americas, Europe and Asia, primarily to supply apparel to mainly the same customer base of its Supply Chain Solutions business. The Group acts as an onshore importer for customers, and while the terms of each order are agreed on a per-program basis, its relationships with customers are typically long-term and strategic in nature.

Operational Organisation and Procedures

The Group is organised into two business segments: Services and Products.

Within Services there were previously three operating groups under Supply Chain Solutions plus Logistics Services. Due to the ever-changing needs of our customers, more movements in the production base and the need to create the end-to-end digital platform, we have reorganised our core Supply Chain Solutions business to put greater focus on our customers. We have created six new account management teams to be fully dedicated to customer-facing services and have appointed Wilson Zhu as a Chief Operating Officer to run our global production platform to free up time from our customer-facing teams. The account management teams will ensure that our customers have our undivided attention in helping them achieve their goals. The production platform will harmonise our KPIs across geographies and provide a consistent level of service, making it easier than ever before to migrate production from one country to another. Our Chief Digital Officer will continue to focus on speeding up the development of our end-to-end digital platform. The first stages of the digital platform have already been developed.

Risk Management

We have strict policies governing accounting control, credit and foreign exchange risk and treasury management. Ultimate responsibility for risk management and effective internal controls rests with the Board of Directors. The Chief Compliance Officer supervises an internal audit team who sit within the Corporate Governance Division. This internal audit team independently reviews policies and guidelines in addition to legal and regulatory requirements, and whether internal controls are operating effectively to manage these risks. Any material findings are reported to the Audit Committee, a sub-committee of the Board of Directors.

Operations Risk Management

The Group has adopted a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. This is characterised by the establishment of a functions Group to process centrally business support activities and exercise control over global treasury activities, financial and management reporting, human resources and information technology systems. All these controls of major operations are supplemented to written policies and Key Operating Guidelines (“**KOGs**”) tailored to the needs of 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, authorisations and approvals for payment processes, and product liability

insurance. They also cover administrative activities including information technology user policy, business travel policy, HR processes, training sponsorship and procedures for handling grievances. The Group also maintains contingency and business continuity plans for various disaster scenarios.

Financial and Capital Risk Management

The Board of Directors approves our Three-Year Plan financial budgets and reviews its operating and financial performance and key performance indicators against the budget on a semi-annual basis. Management closely monitors actual financial performance at both the Group and operating group levels on a quarterly and monthly basis. The Group has adopted a principle of minimising financial and capital risks.

Investment Risk Management

The Investment Committee (comprising the Group Non-executive Chairman and Directors) develops investment control procedures, and monitors and approves major investments and acquisitions. Significant investments and acquisitions (with consideration above a threshold as pre-set by the Board) require Board approval.

Management also monitors the integration process of newly-acquired businesses through a structured post-acquisition integration programme 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.

Reputation Risk Management

The reputation capital of the Group is built on its long-established standards of ethics in conducting business. Our core ethical practices as endorsed by the Board of Directors are set out in the Group's Code of Conduct and Business Ethics for all Directors and employees. A number of accompanying policies, guidelines and procedures covering anti-bribery, gifts, entertainment and hospitality, declaration of interest, trade compliance and whistle-blowing were created to set a framework to help our people make decisions and comply with both the ethical and behavioral standards of the Group.

Regulatory Compliance Risk Management

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

Information Technology Risk Management

The Group continues to invest in information technology systems to support transactional volume growth with improved information availability and controls, and to enhance the security of systems to manage cyber security risks.

The Group's Total Sourcing system, which is a controlled platform for engaging with our vendor community, continues to be enhanced to simplify operations and improve productivity in transactions and information sharing. LF Portal, our dedicated portal for customers to access business information, provides dashboard alternatives to traditional reports in a secured environment.

Enhancement of the Group's overall system security continues to receive high attention. Actions taken include further investments in people and enhanced security processes, engaging external companies to review and provide additional managed services including vulnerability scan and security awareness training. Moreover, we have a Network Operation Centre ("NOC") to closely monitor network devices and servers on a 24 hours a day, 7 days a week, basis. The NOC also improves visibility and responsiveness in case of any system or network failure.

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

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.

Credit Risk Management

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.

Foreign Exchange Risk Management

Most of our cash balances are Hong Kong dollar and U.S. dollar deposits with major global financial institutions, and most of our borrowings are denominated in U.S. dollars.

Our revenue and payments are predominantly transacted in U.S. 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 fully hedge our foreign currency exposure once we receive confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these countries and make necessary hedging arrangements in certain currencies against the U.S. 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-U.S. dollar foreign operations for our income statements and balance sheet reporting purposes. Since our functional currency is in U.S. dollar, we are subject to exchange rate risk arising from the translation of foreign operations' local currencies to U.S. dollars at average rate for the period for group consolidation. Our net equity investments in non-U.S. dollar-denominated businesses are also subject to unrealised translation gain or loss on consolidation. Fluctuation of relevant currencies against the U.S. dollar will result in unrealised 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.

COMPETITION

We believe that there is no direct competitor to the business carried on by Supply Chain Solutions.

We believe that its closest competitors are generally categorised into three segments: (i) other smaller scale trading companies, (ii) outsourcing agents and (iii) relatively small onshore importers. Most participants are manufacturers, importers or exporters whose sourcing activities are collateral to their core business. In-house buying functions of retailers (that provide an alternative for the services that the Group would offer on an outsourced basis) also fall within this category (although the Group regularly works alongside such internal sourcing departments for larger retailers, and in-house sourcing offices are not on the same operational scale). By number, the vast majority of participants are small owner operated or small to medium sized enterprises.

We believe that we are distinguishable from all other participants in the industry by the scale, global reach and comprehensive nature of the supply chain management solutions provided. The Group's model covers the entire supply chain and enables complete end-to-end supply chain solutions, giving the Group a unique competitive advantage over the other companies, as they usually operate only a part of the group's services portfolio.

Logistics Services primarily competes with other international and Asia-based third-party logistics providers for both our in-country logistics business and global freight management business.

We believe our deep understanding of our customers' supply chains and product flows position us strongly against traditional third-party logistics providers.

Industry trends

We believe that our industry is marked by the following trends:

- Multi-year destocking trend. All retailers (online and offline) are focused on carrying the right merchandise at the right time to satisfy today's fast changing consumer trends. In order to achieve this, they are looking for solutions to speed up their design-to-production cycle, causing a transitional inventory destocking until optimised inventory levels are reached. We expect the destocking trend to continue until the industry settles into a new inventory equilibrium. We also believe that destocking is a transient phenomenon through which our customers will achieve better operations and financial strength. Destocking can be a multi-year process depending on the pace of adoption of each individual customer, who is at different stages in the process.
- We expect that customers will no longer focus only on cost and quality but also factory compliance. In addition, customers' increasing focus on fashion and speed has increased demand for quick turnaround and flexibility in order to respond to evolving consumer trends.
- E-commerce and pricing pressure. The advent of e-commerce and the increase in competitive pressure it brings continue to disrupt retail markets. However, the need for supply chains to be digitised to work with the increasingly digitised consumer market are expected to generate opportunities for us. We are making significant progress with the development of our digitalization projects such as our digital platform infrastructure, 3D virtual design, our materials platform and our total sourcing platform and monetisation of these services has already begun within certain customers.

At the retail level, there is an influx of online retailers entering the market, fighting for market share and competing largely on price. This has greatly intensified price competition which coupled with a generally weak consumption market has resulted in a persistently highly-promotional marketplace. At the same time, many online retailers are also launching their own private label lines. With our deep expertise in developing private labels, we are already helping some online retailers source their private label collections. We feel this move to private label will be a major trend with the pure play online retailers and will present significant opportunities for us.

In addition, e-commerce players also compete heavily on their logistics capabilities. With our leadership in e-logistics in Asia, we are becoming the trusted logistics partner for both pure online retailers and traditional retailers' online business. We were early investors in logistics capabilities to pick-and-pack by the piece and expedite in small packages to consumers. This requires a thorough integration of IT systems with those of our customers and last-mile transportation companies. This has become an increasingly important channel and platform for retail sales. Particularly during an extended period of soft trading conditions for retailers globally, the ability to adapt to the challenge of e-commerce and online sales will continue to be a driver for industry growth.

- Asia continues to grow as a consumer market for our businesses. Many brands and retailers increasingly focus on this region and engage us to provide product expertise and to leverage our networks. This has created opportunities for us particularly in the logistics business.

- We expect the outsourcing trend to continue. Many retailers have continued to consolidate in order to return to their core competencies. They see strategic value in finding a partner to outsource their buying and sourcing operations so that they can refocus on their competencies to compete effectively. This has created opportunities for us to meet increasing demand to supply external outsourcing expertise.
- Dispersed manufacturing and increasingly complex trade will become more prevalent. The proliferation of bilateral agreements with the U.S. and Europe has provided to us a worldwide sourcing opportunity, as customers increasingly engage us to provide them with advice in how best to source products in this complex environment.
- The global political and social environment continues to be unstable, particularly in emerging economies. We continue to invest in new sourcing countries which may be subject to social or political instability. We expect periodic instability, political crisis and terrorist activities or attacks to continue. We have developed a flexible, responsible approach to sourcing in emerging markets so that we are able to react quickly in times of crisis or uncertainty.
- 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.

REGULATORY ENVIRONMENT

The sourcing and export trade industry is not subject to specific industry regulatory oversight. As a global business however, we keep abreast of developments in trade regimes affecting the markets in which we operate, as well as requirements for entering into and operating in different markets (for example, requirements in relation to approvals, licences and permits).

We monitor developments in trade arrangements around the world, from strategic issues surrounding trade negotiations at the World Trade Organization, which impact the multilateral trading system, to specific difficulties with the export of individual products which may arise should certain proposed bilateral agreements be entered into between countries. The U.S., China and Europe are the key markets in which we operate, and we closely monitor developments in their trade policies, such as issues relating to tariffs, anti-dumping measures and production quotas.

We are aware that our supply chain partners may be subject to regulations in their respective home jurisdictions. As such, our supply and manufacturing partners are responsible for their own compliance with relevant local labour and occupational health and safety requirements. However, as part of our role as supply chain manager, we also monitor our partners' compliance with such regulations on behalf of our customers through our Supplier Code of Conduct.

Human Resources

As of 31 December 2019, the Group had a total workforce of 16,796, of which 9,473 were warehouse-related employees primarily engaged in our logistics business.

The Group's learning and development programmes aim to strengthen core functional and management capabilities of our people. The Group provides flexible learning channels including digital and classroom courses, on-the-job experience, networking, coaching and mentoring, and cross-border opportunities.

PROPERTY

Consistent with our asset-light approach, we adopt a policy of holding as few real estate and physical infrastructure assets as possible. To accommodate our growth, it became necessary for us to acquire and control our offices in some of our major sourcing hubs. We have also acquired real estate along with some of our business acquisitions. Our intention is to dispose of our real estate if suitable "sale and lease back" arrangements can be negotiated with a suitable landlord at favourable rental rates and tenure of occupancy at arm's length, and supported by proper independent valuations.

INSURANCE

We maintain comprehensive insurance coverage for our business operations in line with market practice, including fire and water damage to office property, export credit, public liability, directors' and officers' liability, employment practice liability, product liability, marine cargo, employee compensation, group life, medical, travel, crime and fidelity insurance. The insurance coverage is provided by reputable insurance companies and with commercially reasonable limits and deductibles on coverage.

CORPORATE RESPONSIBILITY

Corporate Governance

It is our policy to maintain high standards of corporate governance emphasising transparency, accountability and independence. We have tailored our internal control systems to provide reasonable assurance that material assets are protected, business risks attributable to us are identified and monitored, material transactions are executed in accordance with management's authorisation and accounts are reliable for publication. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. Our Corporate Compliance Group, supervised by management independent Group Chief Compliance Officer, also conducts regular and independent reviews to reinforce good corporate governance practices and helps embed the Group's compliance culture into our operations.

Environmental Protection

As part of its sustainability strategy, the Group implements initiatives to manage its environmental footprint within its own operations and remains active in supplier environmental programmes and initiatives which aim at resource conservation and efficiency, environmental protection and product stewardship. The Group continues to enforce its customers' environmental purchasing policies with respect to environmentally-responsible materials, packaging waste minimisation and product stewardship. The Group has also taken an active role in supporting its customers in innovating and developing new tools and systems to support their sustainability programmes and encourages and engages with suppliers to responsibly manage their environmental footprint and improve performance. By adopting and promoting environmental considerations as an integral part of our business activities, the Group equates the environment to other critical business considerations such as compliance, quality and value. In terms of product sustainability, the Group has engaged with the Sustainable Apparel Coalition (of which the Group is a founding member and has been actively involved in the development of the Higg Index, a suite of sustainability tools designed to help organisations standardise how they measure and evaluate environmental performance of apparel products across the supply chain at the brand, product and facility levels) to jointly develop roadmap and pilot tools with other members to measure impact of selected apparel product throughout its product lifecycle, which include its environmental impacts. The Group has various footprint reduction initiatives to drive reduced resource consumption and environmental impact.

Social Responsibility

The Group is a participant in a number of partnerships and organisations that are directed at social responsibility and responsible corporate stewardship including: the partnership with Business for Social Responsibility (an international U.S. based non-profit organisation whose mission is to promote socially responsible business practices, innovations and collaborations that demonstrate respect for ethical values, people, community and the environment) to implement the HERproject, which uses impactful peer-to-peer training and a local partner network to empower primarily female workers in Bangladesh, Cambodia, India and Vietnam through education on nutrition, health and finance, and on improving workplace interaction, harmony and efficiency; Buyer Partner of Better Work (a partnership between the International Labour Organization and the International Finance Corporation that brings together governments, employers, workers and international buyers to improve compliance with labor standards and promote competitiveness in the global supply chain); Sustainable Apparel Coalition where the Group has been actively involved in the development of the Higg Index and is a signatory to the SAC Social and Labor Convergence Project; Center

for Child Rights & Corporate Social Responsibility where the Group participates in its Hong Kong working group focused on the prevention and awareness raising of underage labour in the supply chain. We also established a partnership with the Mekong Club on a focused initiative around modern slavery.

The Group is committed to upholding the 10 principles of the United Nations' Global Compact regarding human rights, labor, environment and anti-corruption and since 2002, we have been signatories to the UN Global Compact. We have undertaken to integrate the United Nation's Sustainable Development Goals ("SDGs") into our operations, our supply chain and products and to work with our customers and suppliers to take steps towards a more sustainable industry and future. As included in the Group's Code of Conduct and Business Ethics, the Group upholds the International Labour Organization's core conventions for the elimination of forced, compulsory or underage labour, elimination of discrimination in respect of employment and occupation, and respect for freedom of association and collective bargaining.

In August 2019, the Group was amongst the 32 founding signatories to a Fashion Pact at the G7 summit. The Fashion Pact outlines what our industry can and will do to safeguard the planet by stopping global warming, restoring biodiversity and protecting the oceans.

Community Engagement

The Group believes that creating a positive impact goes hand-in-hand with having a successful business. Community engagement, which is a key part of the Group's sustainability strategy, helps us attract and retain employees and helps them better understand our local communities and their needs.

The Group provides resources and support for volunteering, shares knowledge and skills, and raises funds to support important initiatives, campaigns and disaster relief. The Group's local actions and global campaigns align core business strengths to support the development of the Group's people, communities and local economies, engage the time and talent of the Group's people and establish networks of community partners.

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.

INTELLECTUAL PROPERTY

We have a proprietary self-developed order management system, OM. We have registered trademarks and patents in relation to our trading business, and in relation to the Li & Fung name and logo in Hong Kong as well as in most countries in which we have offices.

LEGAL PROCEEDINGS

The Group is not currently involved in any litigation or similar proceedings which would have a material adverse effect on the Group's financial condition, results of operations or prospects.

DIRECTORS AND MANAGEMENT

The Board of Directors

The Board of the Company is currently composed of six Directors.

Name	Position
William FUNG Kwok Lun	Director, Group Non-Executive Chairman
Spencer Theodore FUNG	Director, Group Chief Executive Officer
Joseph C. PHI.....	Director, Group President and President of LF Logistics
Edward LAM Sung Lai	Director, Chief Financial Officer of the Group
Ming Zhi MEI	Director
Wenjing ZHUGE	Director

The biographies of the Directors of the Company as at the date of this Offering Circular are as follows:

William FUNG Kwok Lun

Group Chairman since May 2012 and became Group Non-executive Chairman in June 2020. Executive Deputy Chairman from 2011 to May 2012 and before that, Group Managing Director from 1986 to 2011. Joined the Group in 1972 and became a Director of the Group's export trading business in 1976. Graduated from Princeton University with a Bachelor of Science degree in Engineering. Holds an MBA degree from the Harvard Graduate School of Business. Degrees of Doctor of Business Administration, *honoris causa*, were conferred by The Hong Kong University of Science & Technology, by The Hong Kong Polytechnic University and by Hong Kong Baptist University 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. 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 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.

Joseph C. PHI

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).

Edward LAM Sung Lai

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.

Ming Zhi MEI

Director of the Company since June 2020. Co-Founder and CEO of GLP, a leading global investment manager and business builder in logistics, real estate, infrastructure, finance and related technology with over US\$89 billion of assets under management in real estate and private equity funds. Chairman of the Investment Committee of Eastern Bell Venture Capital and sits on various public and private boards. An investor and board member of Value Retail China, a company that specializes in the development and operation of luxury outlet shopping villages. Graduated from the Kellogg School of Management at Northwestern University and the School of Business and Management at the Hong Kong University of Science and Technology with a Master of Business Administration. Received a Bachelor of Science degree in Finance from Indiana University School of Business.

Wenjing ZHUGE

Director of the Company since June 2020. Executive Vice Chairman of GLP China overseeing GLP China's strategic planning, capital deployment, fund management, legal affairs, internal audit and human resource management. Previously served as Co-President and CFO of GLP China. Before joining GLP, she worked with Morgan Stanley Properties China and Deloitte. Graduated with a Master of Business Administration from the Kellogg School of Management at Northwestern University and the School of Business and Management at the Hong Kong University of Science and Technology. Received a Bachelor's degree from Renmin University of China.

Management

The board is supported by Senior Management.

Name	Position
Terry WAN Mei Chow	Company Secretary
Fanny CHENG Pui Wah.....	President of Supply Chain Solutions
Sean Christopher COXALL.....	President of Supply Chain Solutions
Emily MAK Mok Oi Wai.....	President of LF Asia Direct
Darren Peter PALFREY	Chief Digital Officer
Deepika RANA	President of Supply Chain Solutions
ZHU Weizhong (Wilson).....	Chief Operating Officer
Justin Kent	President of Supply Chain Solutions

The biographies of the Senior Management of the Group as at the date of this Offering Circular are as follows:

Terry WAN Mei Chow
Company Secretary

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 Chartered Governance Institute 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.

Fanny CHENG Pui Wah
President of Supply Chain Solutions

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

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.

Emily MAK Mok Oi Wai
President of LF Asia Direct

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.

Justin KENT
President of Supply Chain Solutions

President of Supply Chain Solutions, leading the home and hard goods businesses as well as footwear and accessories. With over 20 years of experience in sourcing, logistics and manufacturing across Asia, Justin joined Li & Fung in February 2020, from William E. Connor & Associates Ltd. where he was Group Managing Director for six years. He served as CEO of RT Sourcing Asia Limited and held key leadership roles in Asia with APL Logistics and Sea-Land Service, Inc. Previously, he was the CEO and co-owner of Empire Pacific Windows Corporation, a window and door manufacturer in the US. Justin holds a Bachelor of Arts degree from Arizona State University and an MBA in International Management from Thunderbird, The American Graduate School of International Management.

Darren Peter PALFREY
Chief Digital Officer

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

President of Supply Chain Solutions, responsible for managing the 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

Chief Operating Officer. Joined the Group in October 2018 to drive operational excellence in the Company's global sourcing & production platform. In 2016, cofounded Cooper Aerobics Wellness Center in China, the first fitness and wellness centre of its kind in China. Prior to that, served as chairman and CEO of in Qbrands 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 and global sourcing at Office Depot, and vice president for global sourcing at Hudson's Bay Company. Advisor 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.

TAXATION

The following summary of certain Bermuda and Hong Kong consequences of the purchase, ownership and disposition of the Instruments is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Instruments should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Instruments, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Bermuda

In Bermuda there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends. The Company is required to pay an annual government fee (the “**Government Fee**”), which is determined on a sliding scale by reference to a company’s authorised share capital and share premium account, with the minimum fee being BD\$1,995 and the maximum fee being BD\$31,120 (the Bermuda dollar (“**BD**”) is treated at par with the U.S. dollar). The Government Fee is payable at the end of January in every year and is based on the authorised share capital and share premium account as they stood at 31 August in the preceding year. The Bermuda government has enacted legislation under which the Minister of Finance in Bermuda is authorised to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entities or any of their operations. In addition, there may be included an assurance that any such tax or any tax in the nature of estate duty or inheritance tax shall not be applicable to the shares, debentures or other obligations of such entities. This assurance has been obtained by the Company for a period ending on 31 March 2035.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Instruments or in respect of any capital gains arising from the sale of the Instruments.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes issued outside Hong Kong in any circumstances or, if issued in Hong Kong, provided either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of Hong Kong (the “SDO”)).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue or transfer of Registered Instruments.

Proposed Financial Transactions Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**Participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of the Instruments should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Instruments where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective investors considering the purchase of the Instruments are advised to seek their own professional advice in relation to the FTT.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign pass thru payments”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Bermuda and Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Instruments, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated dealer agreement dated 27 August 2020 as amended and/or supplemented and/or restated from time to time (the “**Dealer Agreement**”), agreed with the Issuer a basis on which any dealer to be appointed by the Issuer in respect of a single Tranche or the whole Programme may from time to time agree to subscribe Instruments. Any such agreement will extend to those matters stated under Note Conditions and Security Conditions. Under the terms of the Dealer Agreement, the Issuer will pay each Relevant Dealer a commission as agreed between them in respect of Instruments subscribed by it.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Instruments in certain circumstances prior to payment for such Instruments being made to the Issuer.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of their business. If a jurisdiction requires that an offering is made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

In connection with each Tranche of Instruments issued under the Programme, the Dealers or certain of their affiliates may purchase Instruments and be allocated Instruments for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Instruments for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Instruments and/ or other securities of the Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Instruments or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Instruments to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Instruments).

United States

The Instruments have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Instruments may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or, in the case of Instruments offered or sold in reliance on Category 2 of Regulation S, to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has represented, warranted and undertaken that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Instruments within the United States or, in the case of Instruments offered or sold in reliance on Category 2 of Regulation S, to U.S. persons.

In addition, until 40 days after the commencement of any offering, an offer or sale of Instruments within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

European Economic Area

Unless the Pricing Supplement in respect of any Instruments specifies the “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments issued or to be issued by the Issuer under the Programme to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MIFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

If the Pricing Supplement in respect of any Instruments specifies “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area and the United Kingdom (each, a “**Relevant State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by the Offering Circular as completed by the final pricing supplement in relation thereto to the public in that Relevant State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Instruments to the public in that Relevant State:

- (i) if the pricing supplement in relation to the Instruments specifies that an offer of those Instruments may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, **provided that** any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (iii) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iv) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Instruments referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer of Instruments to the public” in relation to any Instruments in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Instruments other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (“C(WUMP)O”), or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Instruments, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Instruments which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Instruments or caused the Instruments to be made the subject of an invitation for subscription or purchase and will not offer or sell any Instruments or cause the Instruments to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Instruments, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions

specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Instruments are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Instruments pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law;
 - (4) as specified in Section 276(7) of the SFA; or
 - (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Unless otherwise stated in the Pricing Supplement in respect of any Instruments, in connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined the classification of all Instruments issued or to be issued under the Programme as prescribed capital markets products (as defined in the CMP Regulations 2018).

Bermuda

Each Dealer has acknowledged that: (i) this Offering Circular, the Instruments and any other document relating to the Instruments are not subject to, and have not received approval from either the Bermuda Monetary Authority or the Registrar of Companies in Bermuda and no statement to the contrary, explicit or implicit, is authorised to be made in this regard; (ii) for the purposes of the Companies Act 1981 of Bermuda (as amended), the Instruments being offered hereby are being offered on a private basis to investors who satisfy the criteria outlined in any of the documents relating to the Instruments; (iii) the Instruments may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda (as amended); (iv) non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorised to do so under applicable Bermuda legislation; and (v) engaging in the activity of offering or marketing the securities being offered in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

General

Each Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Instruments or has in its possession or distributes the Offering Circular and any other offering or publicity material or any applicable Pricing Supplement. Each Dealer has agreed to obtain any consent, approval or permission required by it for the acquisition, offer, sale or delivery by it of Instruments under the laws, regulations and directives in force in any jurisdiction to which it is subject or in or from which it makes such acquisition, offer, sale or delivery and none of the Issuer, the Trustee and any other Dealer shall have any responsibility therefor.

None of the Issuer, the Trustee or any of the Dealers represent that any action has been or will be taken in any jurisdiction that would permit a public offering of any of the Instruments, or possession or distribution of the Offering Circular, any other offering or publicity material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required. With regard to each Tranche, the Relevant Dealers will be required to comply with any additional restrictions agreed between the Issuer and the Relevant Dealers and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

1. **Listing of Instruments:** Approval-in-principle has been received from the SGX-ST for permission to deal in, and the quotation for, any Instruments that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Official List of the SGX-ST. There is no assurance that the application to the SGX-ST for permission to deal in, and quotation of, the Instruments of any Series (as defined herein) will be approved. The approval in-principle from, and admission to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, the Programme and/or the Instruments. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein.

For so long as the Instruments are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a Paying Agent in Singapore, where such Instruments may be presented or surrendered for payment or redemption, in the event that any of the Global Notes are exchanged for Definitive Notes or any of the Global Certificates are exchanged for Individual Certificates. In addition, in the event that any of the Global Notes are exchanged for Definitive Notes or any of the Global Certificates are exchanged for Individual Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Notes or Individual Certificates, including details of the Paying Agent in Singapore.

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations and issue of the Instruments thereunder in connection with the establishment of the Programme and the issue of the Instruments by resolutions of the board of directors of the Issuer.
3. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no adverse change in the prospects of the Issuer or the Group nor any adverse change in the financial or trading position of the Group since 31 December 2019.
4. **Litigation:** Except as disclosed in this Offering Circular, neither the Issuer or any of its subsidiaries is involved in any governmental, legal or arbitration proceedings which may have or during the 12 months prior to the date of this Offering Circular have had an effect on the financial position or profitability of the Group which is material in the context of the issue of the Instruments, nor is the Issuer or any of the its subsidiaries aware that any such proceedings are pending or threatened.
5. **Clearing of the Instruments:** The Instruments may be accepted for clearance through Euroclear and Clearstream. The appropriate ISIN and common code in relation to the Instruments of each Tranche will be specified in the applicable Pricing Supplement. If the Instruments are to be cleared through any additional or alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.
6. **Available Documents:** For so long as Instruments may be issued under the Programme, copies of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Principal Paying Agent, being at the date of this Offering Circular at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland:
 - (i) the Trust Deed (which includes the form of the Global Notes, the Global Certificates, the Notes and Securities in definitive form, the Coupons, the Receipts and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Memorandum of Association and Bye-Laws of the Issuer;

- (iv) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Instruments will only be available for inspection by a holder of any such Instruments and such holder must produce evidence satisfactory to the Issuer or the Trustee as to its holding of such Instruments and identity); and
 - (v) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.
7. **Financial Statements:** The Issuer's audited financial statements as of, and for, the years ended 31 December 2018 and 2019, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, as stated in its report appearing herein.

The Issuer intends to continue to make available its annual audited financial statements and half-yearly unaudited financial statements on its website to existing and (at the discretion of the Issuer) prospective noteholders.

INDEX TO FINANCIAL INFORMATION

	Page
Consolidated Financial Statements of the Issuer as at and for the year ended 31 December 2019	
Independent Auditor's Report ⁽¹⁾	F-2
Consolidated Profit and Loss Account	F-7
Consolidated Statement of Comprehensive Income	F-9
Consolidated Balance Sheet	F-10
Consolidated Statement of Changes in Equity	F-12
Consolidated Cash Flow Statement	F-14
Notes to the Financial Statements	F-16
Consolidated Financial Statements of the Issuer as at and for the year ended 31 December 2018	
Independent Auditor's Report ⁽¹⁾	F-108
Consolidated Profit and Loss Account	F-113
Consolidated Statement of Comprehensive Income	F-115
Consolidated Balance Sheet	F-116
Consolidated Statement of Changes in Equity	F-118
Consolidated Cash Flow Statement	F-120
Notes to the Financial Statements	F-122

Notes:

- (1) The independent auditor's reports on the Group's consolidated financial statements set out herein are reproduced from the Group's annual reports for the years ended 31 December 2018 and 2019, respectively. Page references in the abovenamed reports refer to pages set out in such annual reports.

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

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.

How our audit addressed the Key Audit Matter

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 HKSAAs 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 HKSAAs, 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

143 Consolidated Profit and Loss Account

145 Consolidated Statement of Comprehensive Income

146 Consolidated Balance Sheet

148 Consolidated Statement of Changes in Equity

150 Consolidated Cash Flow Statement

Notes to the Financial Statements

152	1	Basis of Preparation and Principal Accounting Policies	201	26	Reserves
173	2	Critical Accounting Estimates and Judgments	203	27	Perpetual Capital Securities
174	3	Segment Information	203	28	Long-term Liabilities
179	4	Operating Profit from Continuing Operations	205	29	Post-employment Benefit Obligations
180	5	Finance Costs	209	30	Deferred Taxation
180	6	Taxation	211	31	Notes to the Consolidated Cash Flow Statement
181	7	Earnings/(Losses) per Share	213	32	Discontinued Operations
181	8	Dividends	217	33	Transaction with Non-Controlling Interests
182	9	Staff Costs Including Directors' Emoluments	217	34	Contingent Liabilities
183	10	Directors' and Senior Management's Emoluments	217	35	Capital Commitments
184	11	Intangible Assets	217	36	Charges on Assets
187	12	Property, Plant and Equipment	218	37	Related Party Transactions from Continuing Operations
189	13	Right-of-use Assets	220	38	Financial Risk Management
190	14	Prepaid Premium for Land Leases	225	39	Capital Risk Management
190	15	Associated Companies	226	40	Fair Value Estimation
190	16	Joint Venture	229	41	Balance Sheet and Reserve Movement of the Company
191	17	Financial Assets at Fair Value through Other Comprehensive Income	231	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)
191	18	Inventories	234	43	Subsequent Event
191	19	Due from/(to) Related Companies	234	44	Approval of Financial Statements
192	20	Derivative Financial Instruments	235	45	Principal Subsidiaries, Associated Companies and Joint Venture
192	21	Trade and Other Receivables			
195	22	Cash and Cash Equivalents			
195	23	Trade and Other Payables			
196	24	Bank Borrowings			
197	25	Share Capital, Share Options and Award Shares			

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 (equivalent to)		1.6 HK cents 0.20 US cents	11.4 HK cents 1.47 US cents
– Basic from Discontinued Operations (equivalent to)		N/A N/A	(12.6) HK cents (1.63) US cents
– Diluted from Continuing Operations (equivalent to)		1.6 HK cents 0.20 US cents	11.2 HK cents 1.45 US cents
– Diluted from Discontinued Operations (equivalent to)		N/A N/A	(12.5) HK cents (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):			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
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)
<i>Items that may be reclassified subsequently to profit or loss</i>			
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

		As at 31 December		As at 1 January
	Note	2019 US\$'000	2018 US\$'000 (Restated)	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		As at 1 January
		2019	2018	2018
		US\$'000	US\$'000	US\$'000
			(Restated)	(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					Holder of	Non-	Total
	Share capital US\$'000 (Note 25)	Share premium US\$'000	Other reserves US\$'000 (Note 26)	Retained earnings US\$'000	Total US\$'000	perpetual capital securities US\$'000 (Note 27)	controlling interests US\$'000	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					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
	Share capital US\$'000 (Note 25)	Share premium US\$'000	Other reserves US\$'000 (Note 26)	Retained earnings US\$'000	Total 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.

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

Notes to the Financial Statements

1 Basis of Preparation and Principal Accounting Policies

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

1.1 Basis of Preparation

The consolidated financial statements of Li & Fung Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the revaluation of 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 US\$'000	HKFRS16 US\$'000	Restated 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 US\$'000	HKFRS16 US\$'000	Restated 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	$6\frac{2}{3}\%$ – $33\frac{1}{3}\%$
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 companies 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 hedged 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-Maker) 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

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

			Other intangible assets				
	Goodwill US\$'000	System development, software and other license costs US\$'000	Buying agency agreements US\$'000	Customer relationships US\$'000	Patents, trademarks and brandnames US\$'000	Others US\$'000	Total US\$'000
At 1 January 2018							
Cost	2,168,078	49,629	67,867	196,363	25,528	11,940	2,519,405
Accumulated amortization	–	(25,591)	(34,961)	(96,128)	(12,570)	(3,144)	(172,394)
Net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Year ended 31 December 2018							
Opening net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Continuing Operations							
Exchange differences	(22,153)	(635)	–	(732)	(105)	–	(23,625)
Additions	–	35,591	–	–	–	–	35,591
Amortization (Note 4)	–	(8,247)	(11,494)	(13,334)	(3,532)	(776)	(37,383)
Disposal	–	(300)	–	–	–	–	(300)
Closing net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
At 31 December 2018							
Cost	2,145,925	79,908	67,867	194,664	25,334	11,941	2,525,639
Accumulated amortization	–	(29,461)	(46,455)	(108,495)	(16,013)	(3,921)	(204,345)
Net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294

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:

Grant Date	Exercise Price HK\$	Exercisable period	Number of Share Options		
			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:

Grant Date	Fair Value per Share HK\$	Vesting Date	Number of Award Shares				
			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:

	Within 10 years	Between 10-20 years	Beyond 20 years
At 31 December 2019	US\$'000	US\$'000	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	
	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
Deferred tax assets										
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)

	Accelerated tax depreciation allowances		Intangible assets arising from business combinations		Others		Total	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Deferred tax liabilities								
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:	
<i>Items that may be reclassified subsequently to profit or loss</i>	
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	Others	Purchase consideration payable for acquisitions	Others
	US\$'000	US\$'000	US\$'000	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:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:								Emoluments	Total
	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000 (Note (i))	Housing allowance US\$'000	Award Shares gain US\$'000 (Note (ii))	Estimated money value of other benefits US\$'000 (Note (iii))	Employer's contribution to a retirement benefit scheme US\$'000	Remunerations	of the company or its subsidiary undertaking US\$'000	
								paid or receivable in respect of accepting office as director 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:

Name	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		Total
	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000 (Note (i))	Housing allowance US\$'000	Award Shares gain US\$'000 (Note (ii))	Estimated money value of other benefits US\$'000 (Note (iii))	Employer's contribution to a retirement benefit scheme US\$'000	Remunerations paid or receivable in respect of accepting office as director US\$'000	US\$'000	
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	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	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	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(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)

		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)

		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	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(1)	Li & Fung (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	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(1)	Li & Fung 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)

		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	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	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	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
	Silverreed (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)

		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.

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 154 to 255, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matter

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

Key audit matter identified in our audit is summarised as follows:

- Impairment assessment of intangible assets including goodwill

Key Audit Matter

Impairment assessment of intangible assets including goodwill

Refer to Notes 1.6, 2(A), 2(B) and 11 to the consolidated financial statements

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

The Group is required to, at least annually, perform impairment assessments of goodwill and intangible assets that have an indefinite useful life. For intangible assets with useful lives, the Group is required to review these amounts for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives.

For the purpose of performing impairment assessments, all intangible assets including goodwill have been allocated to groups of cash generating units ("CGUs"). The recoverable amount of the underlying CGUs is supported by value-in-use calculations which are based on future discounted cash flows. Management concluded that the intangible assets including goodwill were not impaired as of 31 December 2018.

We focused on this area as the assessments made by management involved significant estimates and judgments, including sales growth rates, gross profit margin, net profit margin and perpetual growth rates used to estimate future cash flows and discount rates applied to these forecasted future cash flows of the underlying CGUs. These estimates and judgments may be affected by unexpected changes in future market or economic conditions or discount rates applied.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated management's key controls over the impairment assessment process.

We compared the methodology used (value-in-use calculations based on future discounted cash flows) by the Group to market practice.

We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved one-year financial budget and future forecasts. We also compared historical actual results to those budgeted to assess the quality of management's forecasts.

We also assessed the reasonableness of key assumptions used in the calculations, comprising sales growth rates, gross profit margin, net profit margin, perpetual growth rate and discount rates. When assessing these key assumptions, we discussed them with management to understand and evaluate management's basis for determining the assumptions, and compared them to external industry outlook reports and economic growth forecasts from a number of sources. We also engaged our valuation experts to assist us in assessing the reasonableness of the discount rates used by management by comparing the discount rates used to entities with similar risk profiles and market information.

We obtained and tested management's sensitivity analysis around the key assumptions, to ascertain that selected adverse changes to key assumptions, both individually and in aggregate, would not cause the carrying amount of intangible assets including goodwill to exceed the recoverable amount.

We evaluated management's assessment on whether any events or change in circumstances indicate there may be a change in the expected useful lives of intangible assets.

We found the Group's estimates and judgments used in the impairment assessment and review of useful lives of intangible assets to be supported by the available evidence.

Other Information

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

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2019

Financial Statements

154	Consolidated Profit and Loss Account
156	Consolidated Statement of Comprehensive Income
157	Consolidated Balance Sheet
159	Consolidated Statement of Changes in Equity
161	Consolidated Cash Flow Statement

Notes to the Financial Statements

163	1	Basis of Preparation and Principal Accounting Policies	208	24	Share Capital, Share Options and Award Shares
185	2	Critical Accounting Estimates and Judgments	212	25	Reserves
187	3	Segment Information	214	26	Perpetual Capital Securities
192	4	Operating Profit from Continuing Operations	214	27	Long-term Liabilities
193	5	Interest Expenses from Continuing Operations	215	28	Post-employment Benefit Obligations
193	6	Taxation from Continuing Operations	220	29	Deferred Taxation
194	7	Earnings/(Losses) per Share	223	30	Notes to the Consolidated Cash Flow Statement
194	8	Dividends	225	31	Discontinued Operations
195	9	Staff Costs Including Directors' Emoluments from Continuing Operations	230	32	Contingent Liabilities from Continuing Operations
195	10	Directors' and Senior Management's Emoluments	231	33	Commitments from Continuing Operations
196	11	Intangible Assets	231	34	Charges on Assets from Continuing Operations
199	12	Property, Plant and Equipment	232	35	Related Party Transactions from Continuing Operations
201	13	Prepaid Premium for Land Leases	234	36	Financial Risk Management
201	14	Associated Companies	239	37	Capital Risk Management
202	15	Joint Venture	239	38	Fair Value Estimation
202	16	Financial Assets at Fair Value through Other Comprehensive Income	242	39	Balance Sheet and Reserve Movement of the Company
203	17	Inventories	244	40	Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)
203	18	Due from/(to) Related Companies	246	41	Approval of Financial Statements
204	19	Derivative Financial Instruments	247	42	Principal Subsidiaries, Associated Companies and Joint Venture
204	20	Trade and Other Receivables			
206	21	Cash and Cash Equivalents			
207	22	Trade and Other Payables			
207	23	Bank Borrowings			

Consolidated Profit and Loss Account

For the year ended 31 December 2018

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

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

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

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

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

Consolidated Balance Sheet

As at 31 December 2018

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

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

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to Shareholders of the Company					Holders of perpetual capital securities	Written put option on non-controlling interests	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Note 24)		(Note 25)			(Note 26)			
Balance at 1 January 2018	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Comprehensive (expense)/income									
Profit or loss	-	-	-	(10,981)	(10,981)	46,125	-	(4,179)	30,965
Other comprehensive (expense)/income									
Currency translation differences	-	-	(17,949)	-	(17,949)	-	-	(7)	(17,956)
Realization of currency translation differences upon disposal of business	-	-	62,685	-	62,685	-	-	-	62,685
Reduction of capital reserves upon disposal of business	-	-	(1,452)	-	(1,452)	-	-	-	(1,452)
Net fair value gains on financial assets at fair value through other comprehensive income	-	-	134	-	134	-	-	-	134
Net fair value gains on cash flow hedges, net of tax	-	-	4,405	-	4,405	-	-	-	4,405
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	-	-	(2,613)	-	(2,613)	-	-	-	(2,613)
Total other comprehensive income/(expense), net of tax	-	-	45,210	-	45,210	-	-	(7)	45,203
Total comprehensive income/(expense)	-	-	45,210	(10,981)	34,229	46,125	-	(4,186)	76,168
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	-	-	(7,577)	-	(7,577)	-	-	-	(7,577)
Issuance of shares for Share Award Scheme	59	-	(59)	-	-	-	-	-	-
Employee Share Option and Share Award Scheme:									
– value of employee services	-	-	16,759	-	16,759	-	-	-	16,759
– vesting of shares for Share Award Scheme	-	15,798	(15,798)	-	-	-	-	-	-
Distribution to holders of perpetual capital securities	-	-	-	-	-	(49,125)	-	-	(49,125)
Redemption of perpetual capital securities	-	-	-	-	-	(500,000)	-	-	(500,000)
Transfer to capital reserve	-	-	24,981	(24,981)	-	-	-	-	-
2017 final dividend paid	-	-	-	(21,830)	(21,830)	-	-	-	(21,830)
2017 special dividend paid	-	-	(519,549)	-	(519,549)	-	-	-	(519,549)
2018 interim dividend paid	-	-	-	(32,886)	(32,886)	-	-	-	(32,886)
Disposal of business	-	-	-	-	-	-	67,000	(73,226)	(6,226)
Total transactions with owners in their capacity as owners	59	15,798	(501,243)	(79,697)	(565,083)	(549,125)	67,000	(73,226)	(1,120,434)
Balance at 31 December 2018	13,633	744,325	53,544	405,390	1,216,892	655,687	-	(3,150)	1,869,429

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

	Attributable to Shareholders of the Company					Holders of perpetual capital securities US\$'000 (Note 26)	Written put option on non-controlling interests US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000 (Note 24)	Share premium US\$'000	Other reserves US\$'000 (Note 25)	Retained earnings US\$'000	Total US\$'000				
Balance at 1 January 2017	13,487	714,536	428,377	1,144,980	2,301,380	1,158,687	–	(1,083)	3,458,984
Comprehensive (expense)/income									
Profit or loss	–	–	–	(374,573)	(374,573)	64,125	–	1,043	(309,405)
Other comprehensive income/(expense)									
Currency translation differences	–	–	82,167	–	82,167	–	–	24	82,191
Net fair value gains on available-for-sale financial assets, net of tax	–	–	174	–	174	–	–	–	174
Net fair value losses on cash flow hedges, net of tax	–	–	(6,959)	–	(6,959)	–	–	–	(6,959)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	6	–	6	–	–	–	6
Total other comprehensive income, net of tax	–	–	75,388	–	75,388	–	–	24	75,412
Total comprehensive income/(expense)	–	–	75,388	(374,573)	(299,185)	64,125	–	1,067	(233,993)
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	–	–	(1,706)	–	(1,706)	–	–	–	(1,706)
Issuance of shares for Share Award Scheme	87	–	(87)	–	–	–	–	–	–
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	16,735	–	16,735	–	–	–	16,735
– vesting of shares for Share Award Scheme	–	13,991	(13,991)	–	–	–	–	–	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(64,125)	–	–	(64,125)
Transfer to capital reserve	–	–	4,861	(4,861)	–	–	–	–	–
2016 final dividend paid	–	–	–	(130,136)	(130,136)	–	–	–	(130,136)
2017 interim dividend paid	–	–	–	(120,064)	(120,064)	–	–	–	(120,064)
Written put option on non-controlling interests	–	–	–	–	–	–	(67,000)	–	(67,000)
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	55,000	55,000
Transactions with non-controlling interests	–	–	–	(19,278)	(19,278)	–	–	19,278	–
Total transactions with owners in their capacity as owners	87	13,991	5,812	(274,339)	(254,449)	(64,125)	(67,000)	74,278	(311,296)
Balance at 31 December 2017	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

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

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

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

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

Notes to the Financial Statements

1 Basis of Preparation and Principal Accounting Policies

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

1.1 Basis of Preparation

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

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

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

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

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

The application of the above new standard, new interpretation and amendments effective in the current year has had no material effect on the Group's reported financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements, except for HKFRS 9 "Financial Instruments" which the Group had to change its accounting policies as set out below.

HKFRS 9 Financial Instruments

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

(i) Changes in accounting policies

Available-for-sale financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Hedge accounting

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

(ii) Effects of changes in accounting policies

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

Classification of available-for-sale financial assets

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

Classification of loans and receivables

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

Impairment of financial assets

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

Hedge accounting

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

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

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

NOTES:

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

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

HKFRS 16 Leases

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

HKFRS 16 Leases (continued)

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

1.2 Consolidation

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

(A) SUBSIDIARIES

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(A) SUBSIDIARIES (continued)

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

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

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

(C) ASSOCIATED COMPANIES

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

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

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

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(D) JOINT VENTURE

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

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

1.3 Segment Reporting

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

1.4 Foreign Currency Translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

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

(B) TRANSACTIONS AND BALANCES

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

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial assets at FVOCI are included in the revaluation reserve in other comprehensive income.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation (continued)

(C) GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in equity.

1.5 Property, Plant and Equipment

(A) LAND AND BUILDINGS

Freehold land is stated at cost less impairment.

Buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(B) OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment, plant and machinery, motor vehicles and company boat, are stated at cost less accumulated depreciation and accumulated impairment losses.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.5 Property, Plant and Equipment (continued)

(C) DEPRECIATION AND IMPAIRMENT

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

Leasehold land	shorter of lease term or useful life
Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment and Plant and machinery	6 ² / ₃ % – 33 ¹ / ₃ %
Motor vehicles and company boat	15% – 20%

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

(D) GAIN OR LOSS ON DISPOSAL

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

1.6 Intangible Assets

(A) GOODWILL

Goodwill represents the excess of the considerations transferred over the net fair value of the Group's share of the net identifiable assets/liabilities and contingent liabilities of the acquired business/associated company/joint venture at the date of acquisition (Note 1.2(a)). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint venture is included in interests in associated companies and joint venture and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.6 Intangible Assets (continued)

(B) SYSTEM DEVELOPMENT, SOFTWARE AND OTHER LICENSE COSTS

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 to 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

Brand licenses are license contracts entered into with the brandholders by the Group in the capacity as licensee. Brand licenses are capitalized based on the upfront costs incurred and the present value of guaranteed royalty payments to be made subsequent to the inception of the license contracts. Brand licenses are amortized based on expected usage from the date of first commercial usage over the remaining licence periods ranging from approximately 1 to 10 years.

(C) OTHER INTANGIBLE ASSETS

Intangible assets, other than goodwill, identified on business combinations are capitalized at their fair values. They represent mainly trademarks, buying agency agreements secured, and relationships with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 2 to 20 years.

1.7 Impairment of Investments in Subsidiaries, Associated Companies, Joint Venture and Non-Financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or joint venture is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets

(I) CLASSIFICATION

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

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

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

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

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

(II) RECOGNITION AND DERECOGNITION

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

(III) MEASUREMENT

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

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

Debt instruments

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(III) MEASUREMENT (continued)

Debt instruments (continued)

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss.

Equity instruments

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

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

(IV) IMPAIRMENT

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

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

(V) ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(A) LOANS AND RECEIVABLES

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

(B) AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

- *Recognition and measurement*

Regular purchases and sales of financial assets were recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets were derecognized when the rights to receive cash flows from the investments had expired or had been transferred and the Group had transferred substantially all risks and rewards of ownership. Available-for-sale financial assets were subsequently carried at fair value. Loans and receivables were subsequently carried at amortized cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale were analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities were recognized in consolidated profit or loss; translation differences on non-monetary securities were recognized in other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale were recognized in other comprehensive income.

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

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

- **Impairment**

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

The Group assessed at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria that the Group used to determine that there was objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It became probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there was a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount was reduced and the amount of the loss was recognized in the consolidated profit and loss account. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss was recognized in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

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

- *Impairment* (continued)

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

The Group assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets was impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was also evidence that the assets were impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – was removed from equity and recognized in the consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments were not reversed through the consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was reversed through the consolidated profit and loss account.

1.9 Inventories

Inventories comprise raw materials and finished goods and are stated at the lower of cost and net realizable value. Cost, calculated on a first-in, first-out (FIFO) basis, comprises purchase prices of inventories and direct costs (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

1.10 Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

1.11 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Cash and Cash Equivalents

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.13 Borrowings

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

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

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

1.14 Current and Deferred Tax

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.15 Employee Benefits

(A) EMPLOYEE LEAVE ENTITLEMENTS

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave entitlements as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(B) DISCRETIONARY BONUS

The expected costs of discretionary bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(C) POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee-administrated funds. The defined benefit pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in the consolidated profit and loss account.

The Group's net obligation in respect of long-service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.15 Employee Benefits (continued)

(D) SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the Share Options/Award Shares is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options/share awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of Share Options/Award Shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of Share Options/Award Shares that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(E) SHARE-BASED PAYMENT TRANSACTIONS AMONG GROUP ENTITIES

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

1.16 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.17 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

1.18 Total Margin

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

1.19 Core Operating Profit

Core operating profit is the profit before taxation generated from the Services segment and Onshore Wholesale business of Products segment excluding share of results of associated companies and joint venture, interest income, interest expenses, taxation, material gains or losses which are of capital nature or non-operational related and acquisition related cost. This also excludes gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items and one-off re-organization costs.

1.20 Revenue Recognition

(A) TURNOVER FROM SALES OF GOODS

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.20 Revenue Recognition (continued)

(A) TURNOVER FROM SALES OF GOODS (continued)

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

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

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

(B) SERVICES FEE FROM LOGISTICS BUSINESS

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

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

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

1.21 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

1.22 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease. The upfront prepayments made for leasehold land and land use rights are amortized on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.23 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

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

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 19. Movements in the hedging reserve in shareholders' equity are shown in Note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(A) CASH FLOW HEDGE

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

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.23 Derivative Financial Instruments and Hedging Activities (continued)

(B) DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives financial instruments recognized at fair value through profit or loss include certain derivative instruments that do not qualify for hedge accounting which is initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair values of derivative financial instruments are recognized immediately in the consolidated profit and loss account.

1.24 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.25 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.26 Treasury Shares

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

1.27 Financial Guarantee Contract

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

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

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

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

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

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

1.29 Written Put Option Liabilities

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

2 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(A) Estimated Impairment of Intangible Assets Including Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 11).

2 Critical Accounting Estimates and Judgments (continued)

(B) Useful Lives of Intangible Assets

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

(C) Income Taxes

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

(D) Contingent Considerations of Acquisitions

Certain of the Group's business acquisitions have involved post-acquisition performance-based contingent considerations. The Group follows the requirement of HKFRS 3 (Revised) to recognize the fair value of those contingent considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses/subsidiaries. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/business and significant judgment about the time value of money. Contingent considerations shall be remeasured at their fair value resulting from events or factors emerging after the acquisition date, with any resulting gain or loss recognized in the consolidated profit and loss account.

The basis of the contingent consideration differs for each acquisition; generally, however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable may vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of each acquired business and the potential impact on the gain or loss on remeasurement of contingent consideration payables and goodwill for each acquired business.

However, if the total actual contingent consideration payables are 10% lower or higher than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables for acquisitions would be US\$896,000.

3 Segment Information

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

The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across key production countries globally. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group divided the business into two segments: Services and Products. The Services segment consists of the Supply Chain Solutions and Logistics businesses. The Products segment consists of the Onshore Wholesale business and the three Product Verticals (furniture, beauty and sweaters) representing our principal-to-principal business.

In 2018, the Group divested the three Product Verticals to further simplify our business and facilitate sharper focus on the core sourcing business. The three Product Verticals are classified as Discontinued Operations and their net results for the year and the comparatives are excluded from the Products segment and presented separately as one-line item below net profit of the Continuing Operations. Further details of financial information of the Discontinued operations are set out in Note 31 to the financial statements.

The Group's management (Chief Operating Decision-Maker) considers the business of the Continuing Operations principally from the perspective of Services segment and the Products segment with the exclusion of the strategic divestment.

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

3 Segment Information (continued)

	Services US\$'000	Products US\$'000	Elimination US\$'000	Total US\$'000
Year ended 31 December 2018				
Continuing Operations				
Turnover	11,062,332	1,666,702	(28,290)	12,700,744
Total margin	1,036,992	304,902		1,341,894
Operating costs	(805,580)	(251,592)		(1,057,172)
Core operating profit	231,412	53,310		284,722
Gain on remeasurement of contingent consideration payable				8,948
Amortization of other intangible assets				(29,136)
One-off reorganization costs				(17,647)
Operating profit				246,887
Interest income				10,608
Interest expenses				
Non-cash interest expenses				(757)
Cash interest expenses				(55,433)
				(56,190)
Share of profits less losses of associated companies and joint venture				205
Profit before taxation				201,510
Taxation				(30,748)
Profit for the year from Continuing Operations				170,762
Discontinued Operations				
Loss for the year from Discontinued Operations				(139,797)
Net profit for the year				30,965
Depreciation and amortization (Continuing Operations)	69,692	15,482		85,174
31 December 2018				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	1,906,798	667,081		2,573,879

3 Segment Information (continued)

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

3 Segment Information (continued)

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

	2018 US\$'000	2017 US\$'000
Turnover		
Supply Chain Solutions	9,933,108	10,989,275
Logistics Services	1,133,374	1,028,069
Elimination	(4,150)	(4,320)
	11,062,332	12,013,024
	2018 US\$'000	2017 US\$'000
Core operating profit		
Supply Chain Solutions	145,319	227,254
Logistics Services	86,093	75,103
	231,412	302,357

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

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

3 Segment Information (continued)

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

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

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

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

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

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

4 Operating Profit from Continuing Operations

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

	2018 US\$'000	2017 US\$'000
Crediting		
Gain on remeasurement of contingent consideration payable (Note)*	8,948	31,492
Gain on disposal of property, plant and equipment and prepaid premium for land leases	–	953
Net exchange gains	6,838	2,922
Charging		
Cost of inventories sold	11,395,406	12,185,061
Intangible assets written off on reorganization (Note 11)*	–	10,502
Property, plant and equipment written off on reorganization (Note 12)*	–	14,988
Other one-off reorganization costs*	17,647	8,455
Depreciation of property, plant and equipment (Note 12)	47,790	39,017
Loss on disposal of property, plant and equipment and prepaid premium for land leases	3,663	–
Loss on disposal of software	300	–
Operating leases rental in respect of land and building	155,222	143,255
Increase in provision for impairment of trade and other receivables (Note 20)	37,353	2,075
Amortization of system development, software and other license costs (Note 11)	8,247	8,347
Amortization of other intangible assets (Note 11)*	29,136	23,327
Amortization of prepaid premium for land leases (Note 13)	1	7
Staff costs including directors' emoluments (Note 9)**	710,939	754,511

* Excluded from the core operating profit

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

NOTE:

During the year, the Group remeasured contingent consideration payable for all acquisitions with outstanding contingent consideration arrangements based on the market outlook and their prevailing business plans and projections. Accordingly, a gain of approximately US\$9 million was recognized. Among the total remeasurement gain, approximately US\$9 million was adjustment to earn-up consideration. The revised provision for performance-based contingent considerations is calculated based on discounted cash flows of future consideration payment with the revision of estimated future profit of these acquired businesses. These gains were recognized as a non-core operating gain on remeasurement of contingent consideration payable.

4 Operating Profit from Continuing Operations (continued)

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

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

NOTE:

Of the above audit and non-audit services fees, US\$3,068,000 (2017: US\$2,727,000) and US\$3,056,000 (2017: US\$2,323,000), respectively are payable to the Company's auditor.

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

5 Interest Expenses from Continuing Operations

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

6 Taxation from Continuing Operations

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

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

6 Taxation from Continuing Operations (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

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

7 Earnings/(Losses) per Share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US\$125,818,000 (2017: US\$170,418,000) and the Group's loss attributable to Shareholders arising from the Discontinued Operations of US\$136,799,000 (2017: US\$544,991,000) and on the weighted average number of 8,369,665,000 (2017: 8,364,801,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,369,665,000 (2017: 8,364,801,000) ordinary shares in issue by 113,438,000 (2017: 76,342,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting of Award Shares.

8 Dividends

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

NOTES:

- (a) At a meeting held on 21 March 2019, the Directors proposed a final dividend of HK\$0.04 (equivalent to US\$0.005) per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2018.
- (b) On 14 December 2017, the Board of Directors proposed a special dividend of 47.6 HK cents per share absorbing approximately US\$520 million, payable out of part of the proceeds from the strategic divestment of Product Verticals business (the "Strategic Divestment").

9 Staff Costs Including Directors' Emoluments from Continuing Operations

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

NOTES:

- (a) Forfeited contributions totalling US\$48,000 (2017: US\$62,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.
- (b) Staff costs of the Continuing Operations amounted to US\$432,694,000 (2017: US\$483,548,000), US\$116,726,000 (2017: US\$137,587,000) and US\$161,519,000 (2017: US\$133,376,000) have been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

10 Directors' and Senior Management's Emoluments

(a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2017: three) Directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments payable to the remaining one individual (2017: two individuals) during the year are as follows:

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

	Number of individuals	
Emolument bands	2018	2017
US\$1,154,000 – US\$1,218,000 (HK\$9,000,001 – HK\$9,500,000)	1	–
US\$1,602,001 – US\$1,667,000 (HK\$12,500,001 – HK\$13,000,000)	–	1
US\$1,922,001 – US\$1,986,000 (HK\$15,000,001 – HK\$15,500,000)	–	1

There is no amount paid or payable to the directors as inducement to join the Group and compensation for loss of office as directors.

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

(b) Senior Management's Emoluments

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

Emolument bands	Number of individuals	
	2018	2017
Below US\$1,000,000	7	6
US\$1,000,001 – US\$1,500,000	3	8
US\$1,500,001 – US\$2,000,000	–	1

11 Intangible Assets

	Goodwill US\$'000	System development, software and other license costs US\$'000	Other intangible assets				Total US\$'000
			Buying agency agreements US\$'000	Customer relationships US\$'000	Patents, trademarks and brandnames US\$'000	Others US\$'000	
At 1 January 2018							
Cost	2,168,078	49,629	67,867	196,363	25,528	11,940	2,519,405
Accumulated amortization	–	(25,591)	(34,961)	(96,128)	(12,570)	(3,144)	(172,394)
Net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Year ended 31 December 2018							
Opening net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Continuing Operations							
Exchange differences	(22,153)	(635)	–	(732)	(105)	–	(23,625)
Additions	–	35,591	–	–	–	–	35,591
Amortization (Note 4)	–	(8,247)	(11,494)	(13,334)	(3,532)	(776)	(37,383)
Disposal	–	(300)	–	–	–	–	(300)
Closing net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
At 31 December 2018							
Cost	2,145,925	79,908	67,867	194,664	25,334	11,941	2,525,639
Accumulated amortization	–	(29,461)	(46,455)	(108,495)	(16,013)	(3,921)	(204,345)
Net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294

11 Intangible Assets (continued)

			Other intangible assets				
	Goodwill US\$'000	System development, software and other license costs US\$'000	Buying agency agreements US\$'000	Customer relationships US\$'000	Patents, trademarks and brandnames US\$'000	Others US\$'000	Total US\$'000
At 1 January 2017							
Cost	3,557,240	73,949	67,867	381,183	45,305	12,063	4,137,607
Accumulated amortization	–	(51,060)	(29,181)	(143,532)	(14,462)	(2,399)	(240,634)
Net book amount	3,557,240	22,889	38,686	237,651	30,843	9,664	3,896,973
Year ended 31 December 2017							
Opening net book amount	3,557,240	22,889	38,686	237,651	30,843	9,664	3,896,973
Continuing Operations							
Exchange differences	43,827	690	–	1,479	329	–	46,325
Adjustments to provisional values for acquisition ^{(Note (i))}	437	–	–	(890)	–	–	(453)
Additions	–	24,097	–	–	–	–	24,097
Disposals	–	(554)	–	–	–	–	(554)
Write off (Note 4)	–	(10,502)	–	–	–	–	(10,502)
Amortization (Note 4)	–	(8,347)	(5,780)	(13,250)	(3,522)	(775)	(31,674)
Discontinued Operations							
Exchange differences	18,288	208	–	1,793	1,095	–	21,384
Acquisition of business	28,576	–	–	5,800	–	–	34,376
Additions	–	5,269	–	–	–	–	5,269
Amortization	–	(2,633)	–	(12,229)	(1,422)	(8)	(16,292)
Classified as assets held for sale	(1,480,290)	(7,079)	–	(120,119)	(14,365)	(85)	(1,621,938)
Closing net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
At 31 December 2017							
Cost	2,168,078	49,629	67,867	196,363	25,528	11,940	2,519,405
Accumulated amortization	–	(25,591)	(34,961)	(96,128)	(12,570)	(3,144)	(172,394)
Net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011

NOTE:

- (i) These were adjustments to net asset values related to certain acquisition of business in 2016, which were previously determined on a provisional basis. During the measurement period of twelve months following the transaction, the Group recognized adjustments to the provisional amounts at the acquisition date. The corresponding adjustments to goodwill and other intangible assets stated above were adjusting other assets/liabilities of the same amount for the year ended 31 December 2017.

Amortization of system development, software and other license costs for the Continuing Operations of US\$5,945,000 (2017: US\$3,356,000) and US\$2,302,000 (2017: US\$4,991,000) have been expensed in merchandising and administrative expenses and selling and distribution expenses respectively.

11 Intangible Assets (continued)

Impairment test for goodwill

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

A summary of goodwill by reporting segment is presented below.

	As at 31 December	
	2018 US\$'000	2017 US\$'000
Services	1,529,817	1,468,517
Products	616,108	699,561
	2,145,925	2,168,078

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. Goodwill impairment reviews have been performed at the lowest level of CGU which generates cash flow independently. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on a one-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 5%. The discount rate used of approximately 11% is pre-tax and reflects specific risks related to the relevant segments. The budgeted gross margin and net profit margin are determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

12 Property, Plant and Equipment

	Land and buildings US\$'000	Leasehold improvements US\$'000	Furniture, fixtures and equipment US\$'000	Plant and machinery US\$'000	Motor vehicles and company boat US\$'000	Total US\$'000
At 1 January 2018						
Cost	1,214	154,940	102,129	104,980	4,394	367,657
Accumulated depreciation	(16)	(99,891)	(35,679)	(22,173)	(1,677)	(159,436)
Net book amount	1,198	55,049	66,450	82,807	2,717	208,221
Year ended 31 December 2018						
Opening net book amount	1,198	55,049	66,450	82,807	2,717	208,221
Continuing Operations						
Exchange differences	(57)	(1,611)	(2,457)	(1,819)	(25)	(5,969)
Additions	–	20,967	21,541	29,174	111	71,793
Disposals	(129)	(55)	(2,951)	(2,696)	(160)	(5,991)
Depreciation (Note 4)	(64)	(15,908)	(17,239)	(13,437)	(1,142)	(47,790)
Closing net book amount	948	58,442	65,344	94,029	1,501	220,264
At 31 December 2018						
Cost	969	158,892	102,508	122,554	2,712	387,635
Accumulated depreciation	(21)	(100,450)	(37,164)	(28,525)	(1,211)	(167,371)
Net book amount	948	58,442	65,344	94,029	1,501	220,264

12 Property, Plant and Equipment (continued)

	Land and buildings US\$'000	Leasehold improvements US\$'000	Furniture, fixtures and equipment US\$'000	Plant and machinery US\$'000	Motor vehicles and company boat US\$'000	Total US\$'000
At 1 January 2017						
Cost	7,613	192,025	187,292	138,287	4,917	530,134
Accumulated depreciation	(956)	(139,755)	(119,446)	(47,310)	(1,117)	(308,584)
Net book amount	6,657	52,270	67,846	90,977	3,800	221,550
Year ended 31 December 2017						
Opening net book amount	6,657	52,270	67,846	90,977	3,800	221,550
Continuing Operations						
Exchange differences	352	283	3,830	4,256	165	8,886
Additions	82	22,584	32,427	16,403	193	71,689
Disposals	(3,774)	(696)	(381)	(276)	(155)	(5,282)
Write off (Note 4)	–	–	(14,988)	–	–	(14,988)
Depreciation (Note 4)	(130)	(10,799)	(13,197)	(13,679)	(1,212)	(39,017)
Discontinued Operations						
Exchange differences	(316)	400	100	81	4	269
Acquisition of business	–	22	854	–	–	876
Additions	–	3,569	4,105	4,959	39	12,672
Disposals	–	(4)	(418)	(59)	–	(481)
Depreciation	(119)	(2,865)	(3,767)	(2,465)	(47)	(9,263)
Classified as assets held for sale	(1,554)	(9,715)	(9,961)	(17,390)	(70)	(38,690)
Closing net book amount	1,198	55,049	66,450	82,807	2,717	208,221
At 31 December 2017						
Cost	1,214	154,940	102,129	104,980	4,394	367,657
Accumulated depreciation	(16)	(99,891)	(35,679)	(22,173)	(1,677)	(159,436)
Net book amount	1,198	55,049	66,450	82,807	2,717	208,221

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

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

13 Prepaid Premium for Land Leases

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

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

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

14 Associated Companies

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

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

15 Joint Venture

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

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

16 Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

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

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

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

17 Inventories

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

18 Due from/(to) Related Companies

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

NOTES:

- (a) As at 31 December 2018, trade balances due from related companies of US\$537,749,000 were current or less than 90 days past due. Amounts past due over 90 days were US\$96,006,000.
- (b) The amounts are unsecured, interest free and repayable on demand. The fair values of amounts due from related companies are approximately the same as the carrying values.
- (c) This item included an amount due from Global Brands Group of which approximately US\$154 million was arisen from purchases made by Global Brands Group on behalf of its divested business sold to an independent third party who makes purchase orders through Global Brands Group as part of the transitional arrangement.
- (d) Part of the amount was arisen from transitional payments made on behalf of LH Pegasus as well as payments LH Pegasus made on the Group's behalf after the strategic divestment.

19 Derivative Financial Instruments

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

Gain in equity of US\$4,631,000 (2017: US\$226,000) on forward foreign exchange contracts as of 31 December 2018 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date (Note 25).

For the years ended 31 December 2018 and 2017, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

20 Trade and Other Receivables

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

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

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing of trade and bills receivable based on invoice date is as follows:

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

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

20 Trade and Other Receivables (continued)

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

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

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

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

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

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

[#] Calculated under HKAS 39.

20 Trade and Other Receivables (continued)

Increase and reversal of provision for impairment for trade and other receivables have been included in "Selling and distribution expenses" in the consolidated profit and loss account (Note 4). Amounts charged to the provision for impairment account are generally written off, when there is no expectation of recovering additional cash.

Save as disclosed as above, the other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

As at 31 December 2018, no bills receivable balances (2017: US\$1,724,000) were transferred to banks in exchange for cash. The transactions have been accounted for as collateralized bank advances.

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

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

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

21 Cash and Cash Equivalents

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

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

22 Trade and Other Payables

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

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

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

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

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

23 Bank Borrowings

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

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

23 Bank Borrowings (continued)

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

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

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

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

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

24 Share Capital, Share Options and Award Shares

	No. of shares (in thousand)	HK\$'000	Equivalent US\$'000
Authorized			
At 1 January 2017, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 31 December 2017, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 1 January 2018, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 31 December 2018, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
Issued and fully paid			
At 1 January 2017, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487
Issue of new Shares of HK\$0.0125 each pursuant to Share Award Scheme ¹	54,509	681	87
At 31 December 2017, ordinary shares of HK\$0.0125 each	8,469,956	105,874	13,574
At 1 January 2018, ordinary shares of HK\$0.0125 each	8,469,956	105,874	13,574
Issue of new Shares of HK\$0.0125 each pursuant to Share Award Scheme ²	36,630	458	59
At 31 December 2018, ordinary shares of HK\$0.0125 each	8,506,586	106,332	13,633

NOTES:

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

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

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

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 31 December 2018 are as follows:

Grant Date	Exercise Price HK\$	Exercisable Period	Number of Share Options			As at 31/12/2018
			As at 1/1/2018	Granted	Lapsed	
22/12/2011	12.12 ¹	1/5/2016–30/4/2018	2,000,000	–	(2,000,000)	–
22/12/2011	12.12 ¹	1/5/2017–30/4/2019	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2018–30/4/2020	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2019–30/4/2021	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2020–30/4/2022	2,000,000	–	–	2,000,000
22/12/2011	12.12 ¹	1/5/2021–30/4/2023	2,000,000	–	–	2,000,000
21/5/2015	7.49	1/1/2016–31/12/2017	27,670,000	–	(27,670,000)	–
21/5/2015	7.49	1/1/2017–31/12/2018	28,727,000	–	(1,634,000)	27,093,000
21/5/2015	7.49	1/1/2018–31/12/2019	28,878,000	–	(1,634,000)	27,244,000
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	–	–	285,000
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	–	604,000
19/5/2016	4.27	1/1/2018–31/12/2019	604,000	–	–	604,000
13/7/2017	2.86	1/1/2018–31/12/2019	125,000	–	–	125,000
Total			98,893,000	–	(32,938,000)	65,955,000

NOTE:

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

Subsequent to 31 December 2018, no shares have been allotted and issued under the Share Option Schemes.

The Share Options outstanding at 31 December 2018 had a weighted average remaining contractual life of 0.79 years (2017: 1.25 years).

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

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

Date of grant	22/12/2011	21/5/2015	16/11/2015	19/5/2016	13/7/2017
Option value	US\$0.53–US\$0.77	US\$0.13–US\$0.17	US\$0.10–US\$0.11	US\$0.08	US\$0.05
Share price at date of grant	HK\$14.14	HK\$7.49	HK\$5.33	HK\$4.27	HK\$2.83
Exercisable price	HK\$12.12 (Note (i))	HK\$7.49	HK\$5.81	HK\$4.27	HK\$2.86
Standard deviation	49%	33%	31%	31%	35%
Annual risk-free interest rate	0.15%–1.35%	0.08%–1.22%	0.08%–1.25%	0.53%–0.84%	0.53%–0.84%
Life of options	5–12 years	2–5 years	3–5 years	3–4 years	2–4 years
Dividend yield	2.39%	4.06%	4.06%	4.33%	6.36%

NOTE:

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

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

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 31 December 2018 are as follows:

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

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

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

25 Reserves

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

25 Reserves (continued)

	Treasury shares US\$'000 (Note (iii))	Capital reserve US\$'000 (Note (i))	Contribution surplus US\$'000 (Note (ii))	Employee share-based compensation reserve US\$'000	Revaluation reserve US\$'000	Hedging reserve US\$'000	Defined benefit obligation reserve US\$'000	Exchange reserve US\$'000	Total US\$'000
Balance at 1 January 2017	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(334,724)	428,377
Other comprehensive income/ (expense)									
Currency translation differences	-	-	-	-	-	-	-	82,167	82,167
Net fair value gains on available-for-sale financial assets, net of tax (Note 16)	-	-	-	-	174	-	-	-	174
Net fair value losses on cash flow hedges, net of tax	-	-	-	-	-	(6,959)	-	-	(6,959)
Remeasurement of post- employment benefit obligations recognized in reserve, net of tax	-	-	-	-	-	-	6	-	6
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(1,706)	-	-	-	-	-	-	-	(1,706)
Issuance of shares for Share Award Scheme	(87)	-	-	-	-	-	-	-	(87)
Employee Share Option and Share Award Scheme:									
– value of employee services	-	-	-	16,735	-	-	-	-	16,735
– vesting of shares for Share Award Scheme	2,450	-	-	(16,441)	-	-	-	-	(13,991)
Transfer to capital reserve	-	4,861	-	-	-	-	-	-	4,861
Balance at 31 December 2017	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577

NOTES:

- (i) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with local statutory requirements.
- (ii) Contribution surplus arises from the transfer from share premium of US\$3,000,000,000 offset by the distribution in specie of US\$2,290,000,000 in prior years and the distribution of a special dividend of US\$519,549,000 in 2018.
- (iii) Treasury shares represent the excess shares issued for settlement of consideration for certain prior year acquisitions and shares issued and purchased for Share Award Scheme held by the escrow agent.

26 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US\$650 million and US\$500 million respectively. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities were classified as equity instruments and recorded in equity in the consolidated balance sheet. The Company redeemed US\$500 million Perpetual Capital Securities issued on 8 November 2012 in full on 25 May 2018. The amounts as at 31 December 2018 and 2017 included the accrued distribution payments.

27 Long-term Liabilities

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

Unsecured long-term notes issued to independent third parties in 2010 of US\$751,405,000 will mature in 2020 and bear annual coupon of 5.25%.

Non-current portion of purchase consideration payable for acquisitions is unsecured, interest-free and not repayable within twelve months. Balance of purchase consideration payable for acquisitions as at 31 December 2018 amounted to US\$8,960,000 (2017: US\$61,583,000), of which US\$6,758,000 (2017: US\$44,162,000) was primarily earn-out and US\$2,202,000 (2017: US\$17,421,000) was earn-up. Earn-out is a contingent consideration that will be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated period of time. Earn-up is contingent consideration that will be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated period of time. Details of earn-out and earn-up remeasurement are set out in Note 4 and Note 38.

The maturity of financial liabilities is as follows:

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

27 Long-term Liabilities (continued)

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

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

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

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

28 Post-employment Benefit Obligations

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

NOTE:

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

28 Post-employment Benefit Obligations (continued)

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

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

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

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

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

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

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

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

28 Post-employment Benefit Obligations (continued)

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

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

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

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

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	±0.25%	–2.49%	+2.61%

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

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

28 Post-employment Benefit Obligations (continued)

(vii) Plan assets comprised:

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

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

28 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

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

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

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

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

29 Deferred Taxation

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

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

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

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US\$263,299,000 (2017: US\$186,467,000) to carry forward against future taxable income, out of which US\$2,300,000 will expire during 2019-2023. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

29 Deferred Taxation (continued)

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

	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Deferred Tax Assets										
At 1 January	11,064	20,202	1,214	7,715	18,465	13,925	6,741	4,677	37,484	46,519
Continuing Operations										
(Charged)/credited to consolidated profit and loss account	(4,962)	(9,619)	(337)	(2,597)	832	7,957	1,621	770	(2,846)	(3,489)
(Charged)/credited to other comprehensive income	-	-	-	-	-	-	(192)	1,458	(192)	1,458
Exchange differences	(479)	3,360	(87)	209	(206)	576	77	20	(695)	4,165
Discontinued Operations										
(Charged)/credited to consolidated profit and loss account	-	(852)	-	(412)	-	454	-	201	-	(609)
Acquisition of business	-	468	-	-	-	-	-	-	-	468
Exchange differences	-	276	-	170	-	308	-	28	-	782
Classified as assets held for sale	-	(2,771)	-	(3,871)	-	(4,755)	-	(413)	-	(11,810)
At 31 December	5,623	11,064	790	1,214	19,091	18,465	8,247	6,741	33,751	37,484

29 Deferred Taxation (continued)

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

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

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

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

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

30 Notes to the Consolidated Cash Flow Statement

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

	2018 US\$'000	2017 US\$'000
Profit before taxation	201,510	274,470
Interest income	(10,608)	(12,261)
Interest expenses	56,190	69,761
Depreciation	47,790	39,017
Amortization of system development, software and other license costs	8,247	8,347
Amortization of other intangible assets	29,136	23,327
Amortization of prepaid premium for land leases	1	7
Property, plant and equipment written off on reorganization	–	14,988
Intangible assets written off on reorganization	–	10,502
Share of profits less losses of associated companies and joint venture	(205)	(1,898)
Employee share option and share award expenses	13,744	13,020
Net loss/(gain) on disposal of property, plant and equipment and prepaid premium for land leases	3,663	(953)
Loss on disposal of software	300	–
Gain on remeasurement of contingent consideration payable	(8,948)	(31,492)
Operating profit before working capital changes	340,820	406,835
(Increase)/decrease in inventories	(58,074)	20,411
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	(183,375)	93,728
Increase/(decrease) in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	154,365	(161,355)
Net cash inflow generated from operations	253,736	359,619

30 Notes to the Consolidated Cash Flow Statement (continued)**(b) Analysis of Changes in Financing Activities During the Year**

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

31 Discontinued Operations

The results of the Discontinued Operations are presented in the consolidated profit and loss account as Discontinued Operations in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The consolidated statement of comprehensive income and consolidated cash flow statement distinguish the Discontinued Operations from the Continuing Operations.

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

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

31 Discontinued Operations (continued)

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

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

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

(b) Geographical analysis of turnover of the Discontinued Operations

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

31 Discontinued Operations (continued)**(c) Operating Profit of the Discontinued Operations**

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

	2018 US\$'000	2017 US\$'000
Charging/(crediting)		
Cost of inventories sold	298,146	1,470,150
Amortization of system development, software and other license costs	515	2,633
Amortization of other intangible assets (excluded from the core operating profit)	3,682	13,659
Depreciation of property, plant and equipment	3,251	9,263
Loss on disposal of property, plant and equipment	–	241
Operating leases rental in respect of land and building	–	14,237
Increase in provision for impairment of trade and other receivables	693	6,468
Staff costs	36,906	161,276
Net exchange gains	–	(795)
Remeasurement loss on assets classified as held for sale (excluded from the core operating profit)*	–	592,363

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

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

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

NOTE:

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

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

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

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

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

31 Discontinued Operations (continued)

(f) Assets and Liabilities of the Discontinued Operations

The assets and liabilities related to the Discontinued Operations had been presented as assets classified as held for sale and liabilities associated with assets classified as held for sale as at 31 December 2017. The Discontinued Operations' assets and liabilities were measured at the lower of carrying amount and fair value less costs to sell at the date of held for sale classification. The major classes of assets and liabilities of the Discontinued Operations are as follows:

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

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

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

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

31 Discontinued Operations (continued)

(h) Related Party Transactions

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

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

Pursuant to the master distribution and sales of goods agreement entered into on 5 December 2014 with FH (1937), certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(i) Transactions with Non-controlling Interests

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

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

32 Contingent Liabilities from Continuing Operations

	2018 US\$'000	2017 US\$'000
Guarantees in respect of banking facilities granted to:		
Associated companies	750	750

33 Commitments from Continuing Operations

(a) Operating Lease Commitments from Continuing Operations

The Continuing Operations of the Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 26 years. At 31 December 2018, the Continuing Operations of the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

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

(b) Capital Commitments from Continuing Operations

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

34 Charges on Assets from Continuing Operations

Save as disclosed in Note 12, there were no charges on the assets and undertakings of the Group as at 31 December 2018 and 2017.

35 Related Party Transactions from Continuing Operations

The Continuing Operations of the Group had the following material transactions with its related parties during the year ended 31 December 2018 and 2017:

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

- (i) Pursuant to the master distribution and sales of goods agreements entered into on 5 December 2014 and 17 November 2017 with FH (1937) for a term of three years ending 31 December 2017 and 2020 respectively, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.
- (ii) Pursuant to the master agreement for leasing of properties or sub-leasing and/or licensing arrangement dated 14 November 2016 entered into with FH (1937) and its associates for a term of three years ending 31 December 2019, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms. For the year ended 31 December 2018, aggregate operating lease rental and license fee paid to and from one another approximated US\$25,599,000 (2017: US\$25,807,000).
- (iii) Pursuant to the buying agency agreement (the "Old Buying Agency Agreement") entered into with Global Brands on 24 June 2014, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands. In view of the expiry of the Old Buying Agency Agreement, the Group has entered into the Amended and Restated Buying Agency Agreement (the "Amended and Restated Buying Agency Agreement") on 14 November 2016 for a term commencing on 9 July 2017 and ending on 31 March 2020. For the year ended 31 December 2018, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income, consisting of commission and FOB of all products and components sourced, of approximately US\$1,363,013,000 (2017: US\$1,328,648,000).
- (iv) Pursuant to the master agreement for provision of logistics related services entered into on 20 August 2015 and 17 November 2017, the Group provided certain logistics related services to FH (1937) and its associates during the year. The aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated US\$16,725,000 (2017: US\$16,598,000).

35 Related Party Transactions from Continuing Operations (continued)

- (v) Pursuant to the sourcing and supply chain management agreement entered into with Trinity on 7 June 2017, the Group provided sourcing and supply chain management services to Trinity and its associates for a term from 1 June 2017 to 31 December 2019. For the period from 1 January 2018 to 17 April 2018, the commission received for sourcing and supply chain management services to Trinity was US\$1,522,000 (2017: US\$5,219,000) and the underlying FOB value of the ordered products was US\$12,170,000 (2017: US\$43,411,000). The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules until 18 April 2018 when Trinity ceased to be a related party.
- (vi) Pursuant to the service agreement entered into with LH Pegasus Holding Limited ("LH Pegasus") on 3 April 2018, the Group provided certain back office function related to IT, human resources, finance and accounting, corporate services and global transaction services to LH Pegasus and its subsidiaries for a term from 3 April 2018 to 31 December 2019. For the period from 3 April 2018 to 31 December 2018, aggregate service fee received was US\$20,500,000 (2017: Nil).
- (vii) Pursuant to the master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license to and from one another for certain sub-lease and license office, showroom and warehouse premises for a term from 3 April 2018 to 31 December 2020. For the period from 3 April 2018 to 31 December 2018 with an aggregate amount of US\$2,420,000 (2017: Nil).
- (viii) Pursuant to the ancillary sourcing, logistics and trading services agreement entered into with LH Pegasus on 3 April 2018 for a term from 3 April 2018 to 31 December 2020. The Group provided agency-based sourcing and logistics services to LH Pegasus. LH Pegasus provided principal trading services to the Group. For the period from 3 April 2018 to 31 December 2018, aggregate amount of the Group's ancillary sourcing income, logistics services income excluding the pass-through costs for direct freight forwarding and trading services expenses including the underlying FOB value of the ordered products was approximately US\$53,419,000 (2017: Nil).
- (ix) For the period from 1 January 2018 to 31 October 2018, the Group charged FH (1937) for costs incurred on certain centralized office support functions (including corporate services, regional information technology support and human resources) on an actual costs recovery basis, amounting to US\$27,167,000 for the year ended 31 December 2018 (2017: Nil).
- (x) Pursuant to a services agreement entered into with Fung Corporate Services Group Limited ("FCSG") in November 2018 ("Services Agreement"), certain employees of the Group who provide centralized office support functions were transferred to FCSG to consolidate centralized offices support functions among different Fung Group companies. Based on the specific services provided under the Services Agreement, FCSG charged the Group on an actual costs recovery basis, amounting to US\$11,818,000 for the period from 1 November to 31 December 2018 (2017: Nil).

Other than (ix) and (x), the foregoing related party transactions also fall under the definition of continuing connected transactions of the Company as stipulated in the Listing Rules on the Stock Exchange.

No transactions have been entered into with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in Notes 10 and 40.

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

36 Financial Risk Management

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

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

Most of the Group's cash balances are in HK dollar and US dollar deposits with major global financial institutions, and most of the Group's borrowings are denominated in US dollars.

The Group's revenues and payments were transacted predominantly in US dollars. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations. There are small portion of sales and purchases transacted in different currencies, for which the Group arranges hedging through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, the Group hedges its foreign currency exposure once it receives confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, the Group regularly reviews the operations in these countries and makes necessary hedging arrangements in certain currencies against the US dollar.

However, the Group does not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of its non-US dollar foreign operations for either the income statements or balance sheet reporting purposes. Since the Group's functional currency is the US dollar, it is subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the period of group consolidation. The Group's net equity investments in non-US dollar-denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

From a medium-to long-term perspective, the Group manages its operations in the most cost-effective way possible within the global network. The Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2018, if the major foreign currencies, such as Euro and Pound sterling, to which the Group had exposure had strengthened/weakened by 10% (2017: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 0.3% lower/higher (2017: 1.1% higher/lower) and 2.9% higher/lower (2017: 2.8% higher/lower), mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, borrowings and intangible assets.

36 Financial Risk Management (continued)

(a) Market Risk (continued)

(II) PRICE RISK

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as financial assets at fair value through other comprehensive income (FVOCI). The Group maintains these investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2018 and up to the report date of the financial statements, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2018, the fair value of foreign exchange forward contracts entered into by the Group amounted to US\$3,985,000 (2017: derivative financial liabilities of US\$5,355,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

At 31 December 2018, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately US\$634,000 (2017: US\$1,076,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

36 Financial Risk Management (continued)

(b) Credit Risk

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group. The Group's principal trading business carries a higher credit risk profile given that the Group is acting as a supplier and therefore takes full counterparty risk for the customers in terms of accounts receivable and inventory.

In addition, as the Group provides working capital solutions to the suppliers via LF Credit by selectively settling accounts payable earlier at a discount, it also assumes direct counterparty risk for the customers for such receivables. With the increased insolvency risk among global brands and retail customers, the Group has deployed a global credit risk management framework with a tightened risk profile, and applied prudent policies to manage the credit risk with such receivables that include, but are not limited to, the measures set out below:

- (i) The Group selects customers in a cautious manner. Its credit control team uses a risk assessment system to evaluate the financial strengths of individual customers prior to agreeing on trade terms. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from customers that fall short of the required minimum score under its risk assessment system;
- (ii) A significant portion of trade receivable balances is covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;
- (iii) It has established a credit risk system with a dedicated team, and tightened policies to ensure on-time recoveries from trade debtors; and
- (iv) It has put in place rigid internal policies that govern provisions made for both inventories and receivables to motivate its business managers to step up efforts in these two areas so as to avoid any significant impact on their financial performance.

The Group's five largest customers of the Group, in aggregate, account for 37% of the Group's Continuing and Discontinued business. Transactions with these customers are entered into within the credit limits designated by the Group.

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

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

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

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

The provision for impairment for trade receivables during the year was set out in Note 20.

36 Financial Risk Management (continued)

(b) Credit Risk (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 331 days past due.

Impairment losses on trade receivables are presented as net impairment losses within core operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

PREVIOUS ACCOUNTING POLICY FOR IMPAIRMENT OF TRADE RECEIVABLES

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization
- default or late payment

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

The impairment loss of other financial assets carried at amortized cost is measured based on the twelve months expected credit loss. As at 31 December 2018, trade receivables of US\$49,040,000 (2017: US\$11,765,000) and other receivables of US\$2,240,000 (2017: US\$3,315,000) have been provided for, none of the other financial assets including financial assets at fair value through other comprehensive income (Note 16) and due from related companies (Note 18) have been provided for as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents (Note 21)) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's non-derivative financial liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and these amounts will not reconcile to the amounts disclosed on the consolidated balance sheet and in Note 27 for long-term liabilities.

36 Financial Risk Management (continued)**(c) Liquidity Risk** (continued)

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
At 31 December 2018				
Purchase consideration payable for acquisitions	819	5,192	4,034	–
Long-term bank loan – unsecured	–	1,034	–	–
Long-term notes – unsecured	39,375	769,688	–	–
Trade and bills payable	1,736,817	–	–	–
Accrued charges and sundry payables	592,868	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	37,809	–	–	–
Short-term bank loans – unsecured	272,951	–	–	–
Finance lease obligation	1,139	1,860	5,579	15,615
At 31 December 2017				
Purchase consideration payable for acquisitions	42,166	14,900	5,531	–
Long-term bank loan – unsecured	–	–	1,558	–
Long-term notes – unsecured	39,375	39,375	769,688	–
Trade and bills payable	1,733,661	–	–	–
Accrued charges and sundry payables	468,089	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	124	–	–	–
Bank advances for discounted bills	1,724	–	–	–
Short-term bank loans – unsecured	22,970	–	–	–
Finance lease obligation	1,133	1,904	5,712	17,893

All of the Group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of US\$166,295,000 (31 December 2017: US\$248,798,000) and undiscounted contractual cash outflows of US\$159,933,000 (31 December 2017: US\$254,175,000).

37 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans (Note 23), long-term bank loan (Note 23) and long-term notes (Note 27) less cash and cash equivalents (Note 21)). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 US\$'000	2017 US\$'000
Long-term bank loan (Note 23)	1,034	1,558
Short-term bank loans (Note 23)	272,951	22,970
Long-term notes (Note 27)	751,405	752,432
	1,025,390	776,960
Less: Cash and cash equivalents (Note 21)	(612,391)	(348,940)
Net debt	412,999	428,020
Total equity	1,869,429	2,913,695
Total capital	2,282,428	3,341,715
Gearing ratio	18%	13%

38 Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

38 Fair Value Estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Financial assets at fair value through other comprehensive income (Note 16)				
– Club debentures	–	–	4,601	4,601
Derivative financial instruments used for hedging (Note 19)	–	3,985	–	3,985
Total assets	–	3,985	4,601	8,586
Liabilities				
Purchase consideration payable for acquisitions (Note 27)	–	–	8,960	8,960
Total liabilities	–	–	8,960	8,960

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Available-for-sale financial assets (Note 16)				
– Club debentures	–	–	4,338	4,338
Total assets	–	–	4,338	4,338
Liabilities				
Derivative financial instruments used for hedging (Note 19)	–	5,355	–	5,355
Purchase consideration payable for acquisitions (Note 27)	–	–	61,583	61,583
Total liabilities	–	5,355	61,583	66,938

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

38 Fair Value Estimation (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfer of assets between level 1, level 2 and level 3 fair value hierarchy classifications during the year.

The following summarizes the major methods and assumptions used in estimating the fair values of the significant assets and liabilities classified as level 2 or 3 and the valuation process for assets and liabilities classified as level 3:

Derivative Financial Instruments Used for Hedging

The Group relies on bank valuations to determine the fair value of financial assets/liabilities which in turn are determined using discounted cash flow analysis. These valuations maximize the use of observable market data. Foreign currency exchange prices are the key observable inputs in the valuation.

Purchase Consideration Payable for Acquisitions

The Group recognizes the fair value of those purchase considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses and significant judgment on time value of money. These calculations use cash flow projections for post-acquisition performance. The discount rate used is based on the then prevailing incremental cost of borrowings of the Group at time of acquisitions, which approximated 2.5%.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018 and 2017.

	2018		2017	
	Purchase consideration payable for acquisitions	Others	Purchase consideration payable for acquisitions	Others
	US\$'000	US\$'000	US\$'000	US\$'000
Opening balance	61,583	4,338	161,536	4,164
Fair value gains	–	134	–	174
Additions	–	129	–	–
Settlement	(42,889)	–	(67,811)	–
Remeasurement of acquisitions payable	(8,948)	–	(31,492)	–
Others	(786)	–	(650)	–
Closing balance	8,960	4,601	61,583	4,338
Total gain for the year included in profit or loss	8,948	–	31,492	–

39 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December	
		2018 US\$'000	2017 US\$'000
Non-current assets			
Interests in subsidiaries		1,132,210	1,126,780
Current assets			
Due from subsidiaries		4,502,273	4,630,639
Due from related companies		2,394	–
Other receivables, prepayments and deposits		570	271
Cash and bank balances		1,535	590
		4,506,772	4,631,500
Current liabilities			
Due to subsidiaries		488,166	387,351
Accrued charges and sundry payables		6,049	6,088
		494,215	393,439
Net current assets		4,012,557	4,238,061
Total assets less current liabilities		5,144,767	5,364,841
Financed by:			
Share capital		13,633	13,574
Reserves	(a)	3,724,042	3,440,148
Shareholders' funds		3,737,675	3,453,722
Holders of perpetual capital securities		655,687	1,158,687
Total equity		4,393,362	4,612,409
Non-current liabilities			
Long-term notes		751,405	752,432
		5,144,767	5,364,841

William Fung Kwok Lun
Director

Spencer Theodore Fung
Director

39 Balance Sheet and Reserve Movement of the Company (continued)**(a) Reserve Movement of the Company**

	Share premium US\$'000	Treasury shares US\$'000 (Note 25 (iii))	Contribution surplus US\$'000 (Note (i))	Employee share-based compensation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance at 1 January 2018	728,527	(10,996)	974,189	66,043	1,682,385	3,440,148
Profit for the year	–	–	–	–	849,036	849,036
Purchase of shares for Share Award Scheme	–	(7,577)	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	–	(59)	–	–	–	(59)
Employee Share Option and Share Award Scheme:						
– value of employee services	–	–	–	16,759	–	16,759
– vesting of shares for Share Award Scheme	15,798	2,883	–	(18,681)	–	–
2017 final dividend paid	–	–	–	–	(21,830)	(21,830)
2017 special dividend paid	–	–	(519,549)	–	–	(519,549)
2018 interim dividend paid	–	–	–	–	(32,886)	(32,886)
Balance at 31 December 2018	744,325	(15,749)	454,640	64,121	2,476,705	3,724,042
Balance at 1 January 2017	714,536	(11,653)	974,189	65,749	2,095,898	3,838,719
Loss for the year	–	–	–	–	(163,313)	(163,313)
Purchase of shares for Share Award Scheme	–	(1,706)	–	–	–	(1,706)
Issuance of shares for Share Award Scheme	–	(87)	–	–	–	(87)
Employee Share Option and Share Award Scheme:						
– value of employee services	–	–	–	16,735	–	16,735
– vesting of shares for Share Award Scheme	13,991	2,450	–	(16,441)	–	–
2016 final dividend paid	–	–	–	–	(130,136)	(130,136)
2017 interim dividend paid	–	–	–	–	(120,064)	(120,064)
Balance at 31 December 2017	728,527	(10,996)	974,189	66,043	1,682,385	3,440,148

NOTE:

(i) The contribution surplus of the Company represents:

- (1) The difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to US\$14,232,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.
- (2) The difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to US\$249,957,000. At Group level, the amount is set off against goodwill arising from the acquisition.
- (3) Contributed surplus arises from the transfer from share premium of US\$3,000,000,000 offset by the distribution in specie of US\$2,290,000,000 in prior years and the distribution of a special dividend of US\$519,549,000 in 2018.

40 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' and Chief Executive's Emoluments

The remuneration of every Director and the chief executive is set out below:

For the year ended 31 December 2018:

Name	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		Total US\$'000
	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000 (Note (i))	Housing allowance US\$'000	Award Shares gain US\$'000 (Note (ii))	Estimated money value of other benefits US\$'000 (Note (iii))	Employer's contribution to a retirement benefit scheme US\$'000	Remunerations paid or receivable in respect of accepting office as director US\$'000		
Executive Directors										
William Fung Kwok Lun	39	618	754	-	143	-	-	-	-	1,554
Spencer Theodore Fung	39	653	986	-	376	-	2	-	-	2,056
Marc Robert Compagnon	39	603	1,270	-	345	72	2	-	-	2,331
Joseph C. Phi (Note (iv))	39	603	952	-	315	29	2	-	-	1,940
Non-executive Directors										
Victor Fung Kwok King	58	-	-	-	-	-	-	-	-	58
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71
Martin Tang Yue Nien	71	-	-	-	-	-	-	-	-	71
Margaret Leung Ko May Yee	71	-	-	-	-	-	-	-	-	71
Cheung Chih Tin	52	-	-	-	-	-	-	-	-	52
John G. Rice (Note (v))	52	-	-	-	-	-	-	-	-	52

NOTES:

- (i) The amounts are accrued discretionary bonuses for 2018.
- (ii) Award Shares gain is determined based on the market price at the vesting date.
- (iii) Other benefits include mortgage interest subsidy.
- (iv) Appointed as Executive Director of the Company with effect from 10 January 2018.
- (v) Appointed as Independent Non-executive Director of the Company with effect from 10 January 2018.

40 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and Chief Executive's Emoluments (continued)

For the year ended 31 December 2017:

Name	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 company or its subsidiary undertaking	Total US\$'000	
	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000 (Note (i))	Housing allowance US\$'000	Award Shares gain US\$'000 (Note (ii))	Estimated money value of other benefits US\$'000 (Note (iii))	Employer's contribution to a retirement benefit scheme US\$'000	Remunerations paid or receivable in respect of accepting office as director US\$'000		
Executive Directors										
William Fung Kwok Lun	39	618	1,453	–	16	–	–	–	–	2,126
Spencer Theodore Fung	39	653	1,958	–	179	–	2	–	–	2,831
Marc Robert Compagnon	39	603	1,736	34	152	–	2	–	–	2,566
Non-executive Directors										
Victor Fung Kwok King	58	–	–	–	–	–	–	–	–	58
Paul Edward Selway-Swift (Note (iv))	24	–	–	–	–	–	–	–	–	24
Allan Wong Chi Yun	71	–	–	–	–	–	–	–	–	71
Martin Tang Yue Nien	71	–	–	–	–	–	–	–	–	71
Margaret Leung Ko May Yee	69	–	–	–	–	–	–	–	–	69
Cheung Chih Tin (Note (v))	26	–	–	–	–	–	–	–	–	26

NOTES:

- (i) The amounts are accrued discretionary bonuses for 2017.
- (ii) Award Shares gain is determined based on the market price at the vesting date.
- (iii) Other benefits include mortgage interest subsidy.
- (iv) Retired as Independent Non-executive Director of the Company with effect from 1 June 2017.
- (v) Appointed as Independent Non-executive Director of the Company with effect from 14 July 2017.

40 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and Chief Executive's Emoluments (continued)

During the year, no Share (2017: Nil) was issued to any Directors under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2018, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
10,000,000 (2017: 12,000,000)	HK\$12.12 ¹	Exercisable in five equal tranches during the period from 1/5/2017 to 30/4/2023 with each tranche having an exercisable period of two years
12,894,000 (2017: 16,023,000)	HK\$7.49	Exercisable in two equal tranches during the period from 1/1/2017 to 31/12/2019 with each tranche having an exercisable period of two years

NOTE:

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

The closing market price of the Shares as at 31 December 2018 was HK\$1.23.

(b) Directors' Termination Benefits

No termination benefit was provided to or receivable by any Director during the year as compensation for the early termination of appointment (2017: None).

(c) Consideration Provided to Third Parties for Making Available Directors' Services

No consideration was provided to or receivable by third parties for making available Directors' services (2017: None).

(d) Information about Loans, Quasi-loans and Other Dealings in Favour of Directors, Controlled Bodies Corporate by and Connected Entities with such Directors

There are no loans, quasi-loans or other dealings in favour of Directors, their controlled bodies corporate and connected entities (2017: None).

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

41 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 21 March 2019.

42 Principal Subsidiaries, Associated Companies and Joint Venture

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Held directly				
(1)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US\$12,000	100	Investment holding
(1)	LF Centennial Limited	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
(1)	LF Credit Limited	Bermuda	Ordinary US\$12,000	100	Investment holding
	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US\$400,010	100	Marketing services and investment holding
	Held indirectly				
(1)	AGI Logistics Foreign Holdings LLC	U.S.A.	Capital contribution US\$1	100	Investment holding
(1)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Camberley Enterprises Limited	Hong Kong	Ordinary HK\$250,000	100	Manufacturing and trading
(1)	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(1)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	EUR9,000,000	100	Investment holding
	Character Direct Limited	Hong Kong	Ordinary HK\$2	100	Design and marketing
	Chuan Jui Chuan Logistics Co., Ltd.	Taiwan	NT\$25,000,000	100	Transportation
	Chuan Jui Fu Logistics Co., Ltd.	Taiwan	NT\$25,000,000	100	Transportation
(1)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US\$45,000	100	Investment holding
(1)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Comet Feuerwerk GmbH	Germany	EUR1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
(1)	Covo Design (Dongguan) Co., Ltd.	The People's Republic of China	US\$4,000,000	100 foreign-owned enterprise	Sample production and exporting trading services
	CS International Limited	Hong Kong	Ordinary HK\$1,000,000	100	Provision of supply chain management and consultancy services
	Definitive Sourcing (India) Private Limited	India	Rs100,000	100	Buying services for sourcing goods
(1)	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(1)	Direct Sourcing Group Investment Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S\$10,000	100	Export trading
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK\$300,000 Ordinary "B" HK\$200,000	60	Export trading
(1)	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S\$200,000	100	Export trading
(1)	DSG (Bangladesh) Limited	Bangladesh	Ordinary TK\$3,750,000	100	Export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Provision of management support services
(1)	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	DSG (US) Inc.	U.S.A.	Common stock US\$1	100	Sourcing service
(1)	Estuary Logistics Group Limited	England	Ordinary "A" GBP95 Ordinary "B" (Non-voting) GBP5	100	Investment holding
(1)	Estuary Logistics Limited	England	Ordinary "A" GBP200 Ordinary "B" (Non-voting) GBP100	100	Provision of logistics services
(1)	Fireworks Holding Limited	British Virgin Islands	Ordinary HK\$1	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	Golden Gate CAV, Ltd	Cayman Islands	Ordinary US\$250	100	Investment holding
(1)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US\$600,000	100	Commission agent and investment holding
(1)	Golden Gate Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Golden Horn N.V.	Curacao	US\$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK\$140,000	100	Export trading
(1)	Hanson Im-und Export GmbH	Germany	EUR26,000	100	Wholesaling
	Homeworks Asia Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	HTL Fashion (UK) Limited	England	Ordinary GBP1	100	Design and export trading
	HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi	Turkey	YTL50,000	100	Manufacturing
(1)	IDS Group Limited	British Virgin Islands	Ordinary US\$949,166	100	Investment holding
	International Sources Trading Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	Kariya Industries Limited	Hong Kong	Ordinary HK\$1,000,000	100	Export trading
	Lenci Calzature SpA	Italy	Equity shares EUR206,400	100	Design, marketing and sourcing
	LF (Philippines), Inc.	The Philippines	Common shares Pesos 21,000,000	100	Provision of logistics services
(1)	LF Americas Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
(1)	LF Asia Direct Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	LF Asia Direct Management Limited	Hong Kong	Ordinary HK\$1	100	Investment holding
(1)	LF Beauty Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	LF Centennial Pte. Ltd.	Singapore	Ordinary S\$100,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Provision of management support services
	LF Credit Pte. Ltd.	Singapore	Ordinary S\$1,000,000	100	Provision of trade-related credit services
(1)	LF Distribution Holding Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	LF Distribution International Holding Limited	Hong Kong	Ordinary US\$1	100	Investment holding
(1)	LF Distribution International Inc.	U.S.A.	Common stock US\$1	100	Investment holding
(1)	LF Distribution Limited	Bermuda	Ordinary US\$100	100	Investment holding
	LF Europe (Germany) Services GmbH	Germany	EUR25,000	100	Provision of accounting services
(1)	LF Europe Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,002	100	Investment holding
	LF Europe Trading Limited	England	Ordinary GBP100	100	Service company
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Provision of management support services
	LF Home Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	LF International Inc.	U.S.A.	Common stock US\$30,002	100	Investment management
(1)	LF Logistics (Bangladesh) Limited	Bangladesh	Ordinary TK\$10,000,000	100	Provision of freight forwarding services
	LF Logistics (Cambodia) Limited	Cambodia	Ordinary Riels 20,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics (China) Co., Ltd	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Provision of freight forwarding and other logistics services
	LF Logistics (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	100	Provision of logistics services
(1)	LF Logistics (India) Private Limited	India	Ordinary Rs15,000,000	100	Logistics, supply chain management and freight forwarding
	LF Logistics (Jiangsu) Co., Ltd.	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Provision of logistics services
	LF Logistics (Taiwan) Limited	Hong Kong	Ordinary HK\$200	100	Provision of logistics and packaging services

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	LF Logistics (Thailand) Limited	Thailand	Ordinary Baht 307,750,000	100	Freight forwarding and other logistics services
	LF Logistics (UK) Limited	England	Ordinary GBP25,050,000	100	Provision of logistics services
(1)	LF Logistics (Vietnam) Company Limited	Vietnam	Charter capital US\$300,000	100	Storage and Warehousing Services
	LF Logistics Development (M) Sdn. Bhd.	Malaysia	Ordinary RM2	100	Investment holding
(1)	LF Logistics Holding (Thailand) Limited	Thailand	Ordinary Baht 50,000,000	100	Investment holding
(1)	LF Logistics Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	LF Logistics Holdings (UK) Limited	England	Ordinary GBP2	100	Investment holding
(1)	LF Logistics Japan Limited	Japan	Ordinary JPY10,000,000	100	Provision of logistics services
(1)	LF Logistics Korea Limited	Korea	Common stock KRW300,000,000	100	Provision of freight forwarding and other logistics services
(1)	LF Logistics Holdings Limited (formerly known as LF Logistics Limited)	Bermuda	Ordinary US\$100	100	Investment holding
	LF Logistics Management Limited	Hong Kong	Ordinary HK\$426,509,031	100	Provision of management and consultancy services
(1)	LF Logistics Pakistan (Private) Limited	Pakistan	Ordinary Rs5,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	LF Logistics Services Pte. Ltd.	Singapore	Ordinary S\$28,296,962	100	Provision of freight forwarding, warehousing and distribution services, agency and supply chain management services
(1)	LF Logistics USA Inc.	U.S.A.	Common stock US\$1	100	Investment Holding
(1)	LF Logistics USA LLC	U.S.A.	Capital contribution US\$1	100	Provision of freight forwarding and other logistics services
(1)	LF Men's Group LLC	U.S.A.	Capital contribution US\$1	100	Wholesaling
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
(1)	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US\$1	100	Sourcing and export trading
(1)	LF Sourcing Sportswear LLC	U.S.A.	Capital contribution US\$1	100	Wholesaling
(1)	LFL Management (Thailand) Limited	Thailand	Ordinary Baht 10,000,000	100	Investment holding
(1)	LFL Services (Thailand) Limited	Thailand	Ordinary Baht 2,000,000	100	Investment holding

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Licus GmbH	Germany	EUR50,000	100	Importer
(1)	Li & Fung (Australia) Proprietary Limited	Australia	Ordinary AU\$1	100	Marketing liaison
(1)	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary TK\$9,500,000	100	Export trading services
(1)	Li & Fung (Brasil) Trading, Importacao E Exportacao Ltda	Brazil	Common shares R\$333,559	100	Service provider
(1)	Li & Fung (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	100	Export trading services
(1)	Li & Fung (Chile) Limitada	Chile	Chilean Pesos \$5,500,000	100	Export trading
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK\$10,000 Non-voting deferred HK\$8,600,000	100	Investment holding
(1)	Li & Fung (Guatemala) S.A.	Guatemala	Nominative shares Q5,000	100	Export trading services
(1)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rs64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock KRW 200,000,000	100	Export trading services
(1)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rs750,000 "B" Shares Rs500,000	60	Export trading services
(1)	Li & Fung (Morocco) SARL	Morocco	Ordinary Dirhams10,000	100	Export trading services
(1)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C\$500,000	100	Export trading
(1)	Li & Fung (Philippines) Inc.	The Philippines	Common shares Pesos 1,000,000	100	Export trading services
(1)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
(1)	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S\$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT\$175,000,000	100	Sourcing and inspection
(1)	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 8,000,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK\$200 Non-voting deferred HK\$10,000,000	100	Export trading services and investment holding
(1)	Li & Fung (Vietnam) Limited	Vietnam	Charter capital US\$800,000	100	Export trading services
	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	EUR99,759.58	100	Export trading services

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Li & Fung Foundation Limited	Hong Kong	–	100	Charity
(1)	Li & Fung Mexico S.A. de C.V.	Mexico	Common nominative shares MXP150,000	100	Service and import trading
	Li & Fung Mumessilik Pazarlama Limited Sirketi	Turkey	YTL45,356,100	100	Export trading services
(1)	Li & Fung Pakistan (Private) Limited	Pakistan	Ordinary Rs10,000,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT\$287,996,000	100	Investment holding
(1)	Li & Fung Trading (Italia) S.r.l.	Italy	EUR100,000	100	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
(1)	Li & Fung Trading Service (Guangzhou) Limited	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US\$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	Li & Fung Trading Services (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM 500,000	100	Sourcing services
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	100	Investment holding
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK\$20	100	Investment holding
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK\$3,000,000	100	Provision of management services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK\$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading services
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK\$1,000,000	100	Manufacturing and trading
(1)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Meredith Associates Limited	Hong Kong	Ordinary US\$1,327,932	100	Investment holding
(1)	Mighty Hurricane Holdings Inc.	U.S.A.	Common stock US\$100	100	Wholesaling

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S\$1	100	Export trading
(1)	Miles Fashion USA, Inc.	U.S.A.	Common stock US\$1,000	100	Importer
	Miles GmbH	Germany	EUR11,000,000	100	Importer
(1)	Millwork Holdings Co., Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares YTL2,249,975 B Shares YTL25	100	Manufacturing
	Ningbo Zhicheng Customs Brokerage Co., Ltd.	The People's Republic of China	RMB1,500,000	100	Provision of Customs brokerage services
(1)	P.T. Lifung Indonesia	Indonesia	Ordinary US\$500,000	100	Export trading services
	Paco Trading (International) Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	PATCH Licensing LLC	U.S.A.	Capital contribution US\$1	66.67	Export trading services
	Perfect Trading Inc.	Egypt	LE2,480,000	60	Export trading services
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black Holdings Limited	England	Ordinary GBP0.25	100	Investment holding
	Peter Black International Limited	England	Ordinary GBP0.01	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Product Development Partners Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	PromOcean France SAS	France	EUR4,030,303	100	Wholesaling
	PromOcean GmbH	Germany	EUR25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Spain SL	Spain	EUR3,005	100	Wholesaling
(1)	PromOcean The Netherlands B.V.	The Netherlands	EUR39,379.5	100	Wholesaling
	PromOcean UK Ltd	England	Ordinary GBP1	100	Wholesaling
(1)	PT Direct Sourcing Indonesia	Indonesia	Ordinary US\$250,000	100	Export trading services
(1)	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and other services
(1)	Ratners Enterprises Ltd.	British Virgin Islands	Ordinary US\$1	100	Investment holding
(1)	Region Giant Holdings Limited	British Virgin Islands	Ordinary US\$31	100	Investment holding
(1)	RMS Trading GmbH	Germany	EUR25,000	100	General trading of merchandise
(1)	RT Sourcing (Shenzhen) Limited	The People's Republic of China	HK\$1,000,000	100	Export trading services

foreign-owned
enterprise

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US\$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK\$1,100,000 Ordinary "B" HK\$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export trading
	Silverreed (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Export trading
(1)	Simkar 2 Limited	Cayman Islands	Ordinary US\$50,000	100	Investment holding
(1)	Simkar Limited	Cayman Islands	Ordinary US\$49,999.75	100	Investment holding
	Sky Million International Limited	Hong Kong	Ordinary HK\$2	100	Property investment
(1)	STS Shenzhen Testing Service Limited	The People's Republic of China	US\$660,000	100 foreign-owned enterprise	Testing and technology consultation
(1)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Texnorte II – Industrias Texteis, Limitada	Portugal	EUR5,000	100	Export trading services
	Texnorte Industrial Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	W S Trading Limited	Hong Kong	Ordinary HK\$1,000,000	100	Export trading
	Wilson Textile Limited	Hong Kong	Ordinary HK\$1	100	Export trading

NOTE:

- (1) Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited/reviewed by PricewaterhouseCoopers amounted to less than 5% of the Group's total net assets.

The above table lists out the principal subsidiaries of the Company as at 31 December 2018 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

42 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
Note	Principal associated companies				
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK\$4,000,000	50	Export trading
#	Ningbo Penavico-CCL International Freight Forwarding Co., Ltd.	The People's Republic of China	US\$1,000,000	40	Provision of freight forwarders services
Note	Joint venture				
*	Red Sun Company Limited	The People's Republic of China	RMB48,000,000	20	Domestic and export trading

The associated companies are not audited by PricewaterhouseCoopers.

* The joint venture is not audited by PricewaterhouseCoopers.

Although the Group owns less than half of the equity interests in Red Sun Company Limited, it is able to exercise joint control by virtue of an agreement with other investors.

The above table lists out the principal associated companies and joint venture of the Company as at 31 December 2018 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

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