A letter from our CEO

2014 was a year of transition and investment. We simplified our organization to put focus back on our core business and strengthened our multi-channel sourcing platform. By creating value for our customers we remain the "go to" supply chain partner of choice.

Introduction

I am honored to serve as the new Group Chief Executive Officer of Li & Fung, and as the fourth generation of the Fung Family to lead our business since the Company's establishment in 1906.

For the 14 years since 2001, I have been involved in all aspects of our operations from liaising with factories around the world, overseeing quality control, serving customers across three continents, to managing acquisitions and integrations in over 20 countries. During my time as President of LF Europe, we built the business into one of the leading consumer product suppliers in Europe. Most recently, as Group Chief Operating Officer I spearheaded the build out of our global infrastructure. From my interaction with our customers and teams around the world, I have learned that creating value for our customers is at the heart of what we do.

I started my career as an accountant at PricewaterhouseCoopers, a multinational corporation (MNC), followed by a move to Silicon Valley where I co-founded a tech start-up that created one of the first pan-Asian online marketing platforms. These experiences have given me the tools to combine the global leverage of Li & Fung with the speed and innovative culture of a start up.

"I believe in combining the global leverage of Li & Fung with the speed and innovative culture of a start up.

2014 was an important year for Li & Fung and I would like to outline some of the key features of our business.

- **2014 as a year of transition and investment**
- **Simplified business model; refocused back to core business and organic growth**
- **Less volatility, asset light and strong cash flow generation**
- **Investing for the short, medium and long term to generate growth**
- **Trading core customers and logistics remain solid with strong pipeline**
- **Multi-channel sourcing platform offers flexible solutions to customers**

In the first half of 2014, we took a strategic decision to simplify our organization and put focus back on our core business and strengthen our multi-channel sourcing platform. The resultant spin-off of Global Brands by way of a distribution in specie was completed in July.

Today, Li & Fung's supply chain solutions business is reorganized into two Networks: Trading and Logistics. The Trading Network focuses on providing global and multi-channel sourcing solutions for customers' brands and private labels on either an agency or principal basis. The Logistics Network encompasses in-country logistics as well as global freight management capabilities. This simplified business model will remain asset light and aims to reduce earnings volatility over the long term and to continue to generate strong cash flow for our shareholders.

Our product range includes fashion apparel, children's wear, sportswear, outerwear, handbags and accessories, footwear, beauty, home furniture and decor, home textiles, seasonal products and gifts. Our customer base includes a diverse range of brands and retailers including national brands, specialty stores, department stores, e-commerce, clubs, hypermarkets and off-price retailers.

We continue to be the supply chain partner of choice by providing best-in-class sourcing and logistics solutions for brands and retailers worldwide.

2014 Performance

Results

	2014 US$m	2013 US$m	Change %
Turnover	**19,288**	19,026	+1.4%
Total margin	**2,244**	2,294	(2.2%)
As % of turnover	***11.6%***	*12.1%*	
Operating costs	**1,640**	1,557	+5.3%
As % of turnover	***8.5%***	*8.2%*	
Core Operating Profit	**604**	737	(18.0%)
As % of turnover	***3.1%***	*3.9%*	
Profit Attributable to Shareholders (1)	**539**	612	(11.8%)
EPS	**50 HK cents**	57 HK cents	(11.8%)

(1) Excluding results from Discontinued Operations

Following the spin-off of Global Brands in July 2014, we have restated our results and reclassified Global Brands as Discontinued Operations in this 2014 annual report. Our discussion of the results and financial positions, therefore, does not include contribution from Global Brands for the year ended both 31 December 2013 and 31 December 2014.

Overall, 2014 was a challenging year for our customers. Macroeconomic conditions were difficult for brands and retailers globally, set against a backdrop of continuing promotional discounting brought on by online competition and a slowing of consumer spending in our sector.

2014 was also a year of transition and investment for Li & Fung. As in previous three-year plans, our first year is always a period of investment for the Group. Over 2014, we invested across a number of initiatives to strengthen and improve our core business, simplifying the business and accelerating organic growth. Major new initiatives included setting up Vendor Support Services to tap into our base of over 15,000 suppliers as new customers and the acquisition of China Container Line (CCL) to enhance global freight management for our logistics business.

Our return to a simplified core business has allowed us to focus on ways to create value for our customers across both our trading and logistics businesses. We are committed to finding new ways to meet customers' changing needs in a retail environment increasingly impacted by e-commerce. In the global supply chain arena, we remain the "go to" partner of choice.

Turnover

Despite the challenging macro-economic environment, Group turnover increased by 1%. Turnover in the Trading Network was stable and the Logistics Network increased substantially by 66%. Turnover in our US business was stable for the year, while our European business declined by 1%, Asian business increased by 14% and the rest of world decreased by 3%.

The overall environment in the United States improved in 2014. Consumers, however, opted for bigger ticket items such as autos and electronics on the back of cheap financing and a rebound in the US real estate market. Apparel and accessories purchases lost their share of consumer spending to these bigger ticket items. As a result, our US business, which represented 60% of our total turnover, remained flat year-on-year.

Overall weakness in the European economies negatively impacted our European brand and retail customers, which in turn affected our business in Europe, representing 18% of our total turnover. In the UK, retail markets at the start of the year had better than expected consumer traffic, which tapered off in the second half. In other parts of the Eurozone, soft economies and the Russia/Ukraine situation negatively impacted tourism and retail sales.

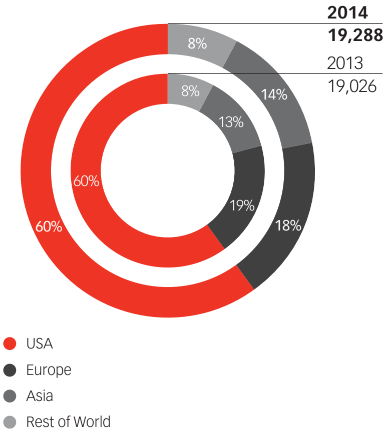
Our business in Asia, which represents 14% of our total turnover was strong despite political and other disruptions in markets, such as Thailand, Hong Kong and China. Our logistics businesses in particular recorded a very good year with many new customer wins in in-country logistics and enhanced capabilities in global freight management from the acquisition of CCL.

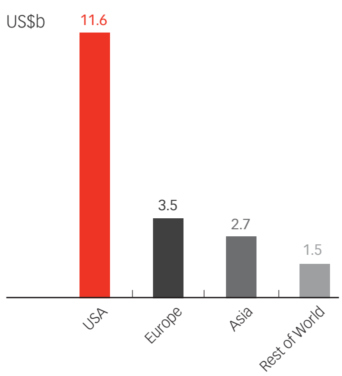
Total Margin

Total margin decreased by 2%. This was due to a reduction in business and margin associated with our trade with customers on a principal basis, which was offset by new customers and increased sales from our direct agency business side and Logistics Network.

Group Geographical Market Turnover

US$m





YoY %	+0.1%	(1.2%)	+14.3%	(3.4%)

Operating Cost

Operating cost increased by 5%. This was primarily due to our investment in our logistics business, as well as strategic investments geared towards delivering the goals outlined in our Three-Year Plan.

In 2014, we invested in new expertise and presence in new markets and services, new product categories, as well as support infrastructure to drive organic growth in the business over the next three years. Furthermore, we have invested in the required infrastructure and resources for Vendor Support Services, which will begin to gain traction in the coming years.

Finally, we incurred one-time reorganization costs relating to redundancies and asset write-offs to facilitate the spin-off of Global Brands and to enhance our multi-channel sourcing platform.

Core Operating Profit

Core operating profit decreased by 18% due to a reduction in total margin as a percentage of turnover from 12.1% to 11.6%. Operating cost as a percentage of turnover increased from 8.2% to 8.5% as a result of investments made during the year.

Profit Attributable to Shareholders

Profit attributable to shareholders (excluding results from Discontinued Operations) decreased by 12%, which included a non-cash gain of US$176 million on the write-back of contingent considerations.

Strong Cash Position

Li & Fung has a strong and stable cash flow conversion business, which more than adequately funded its working capital, dividends, interest expenses and capital expenditure in 2014.

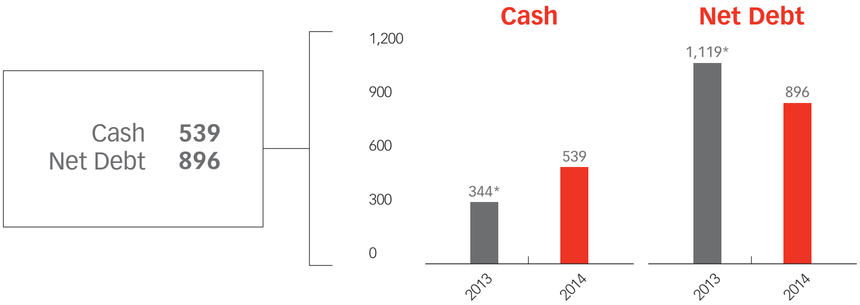
- Operating cashflow of US$638 million is in line with core operating profit after working capital and depreciation adjustments and tax payments.
- US$594 million shareholders’ loans repayment from Global Brands, offset by capital injection of US$15 million to Global Brands.
- Capital expenditure of US$86 million and acquisition-related payments of US$224 million, including consideration payable for previous acquisitions and for new acquisitions such as China Container Line.
- Dividends paid for the 2014 financial year of US$507 million.
- Net interest expenses paid of US$88 million and distribution to perpetual capital securities holders of US$30 million.

Solid Balance Sheet

Our balance sheet remained strong with a cash position of US$539 million, and a decrease in the Group's net debt (total borrowings minus cash) from US$1,119 million as of 31 December 2013 to US$896 million as of 31 December 2014. The Group's gross debt was US$1,434 million as of 31 December 2014, with a weighted average tenor of over 3 years. The majority of the Group's debt is at a fixed rate and denominated in US dollars.

Cash and Net Debt

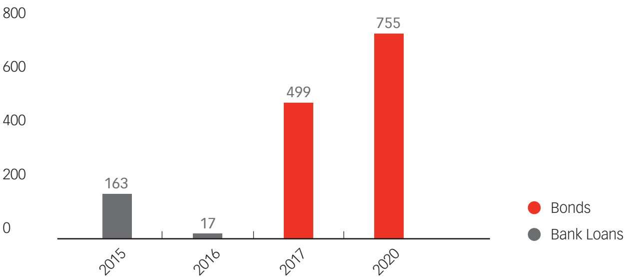
US$m



* *Excludes cash and debt from Discontinued Operations*

Debt Maturity Schedule

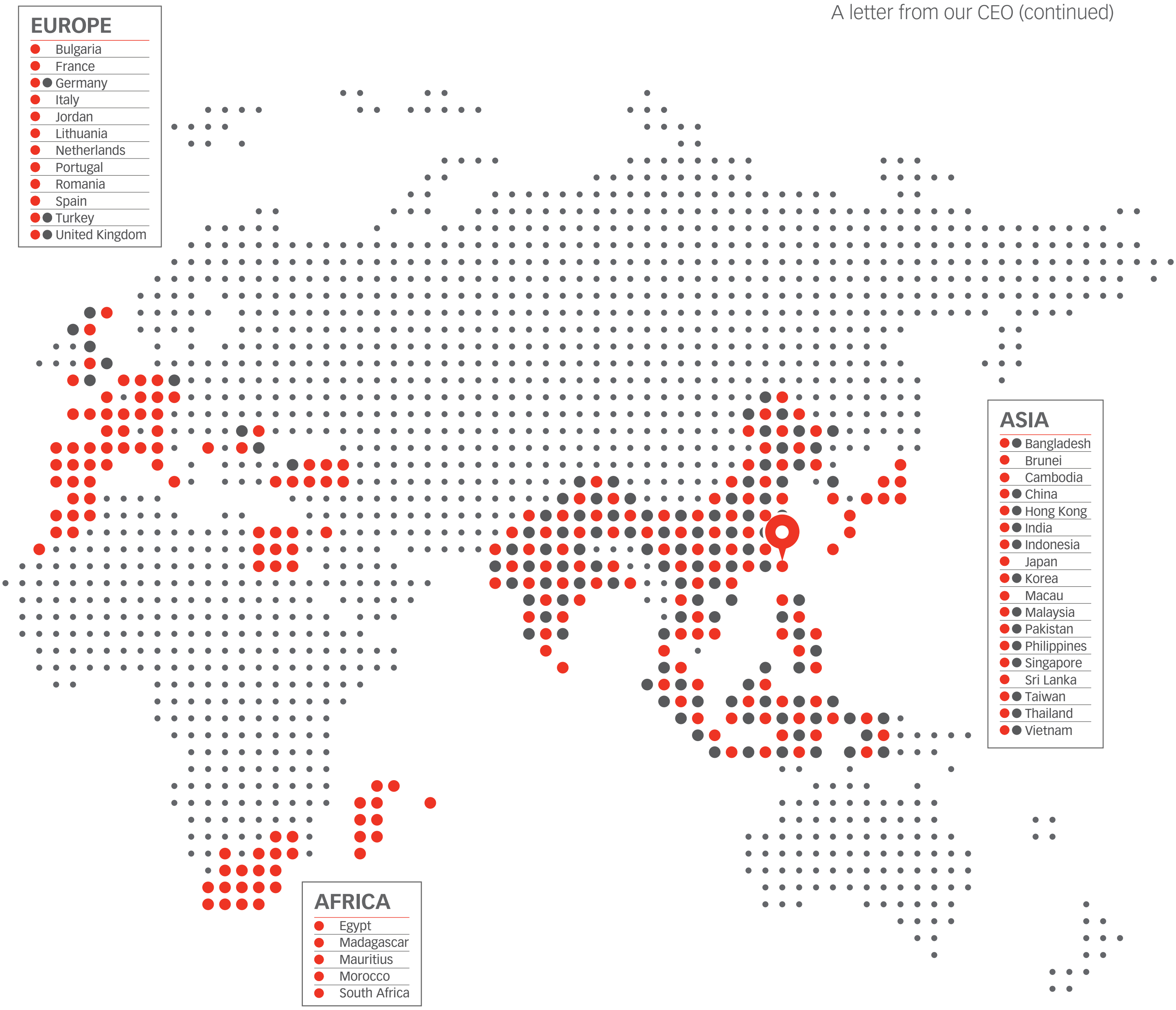
US$m



Our global presence

Li & Fung Limited is the leading consumer goods design, development, sourcing and logistics company for major retailers and brands around the world. We specialize in responsibly managing supply chains of high-volume, time-sensitive goods.

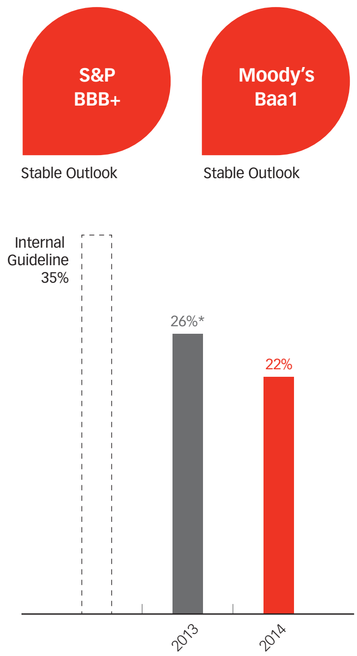
With over 300 offices and distribution centers in more than 40 economies spanning across the Americas, Europe, Africa and Asia, we provide sophisticated, end-to-end solutions to meet our customers' specific needs. Our customer relationships, vendor network and operations, which position us as one of the world's largest consumer product sourcing and distribution platforms, remain unrivaled.



We are committed to achieving the highest standards when meeting the needs of our customers through competitive pricing, quality and reliable delivery. By leveraging our global network, market knowledge and advanced technology, we have the capacity and flexibility to rapidly respond to evolving trends in consumer and production markets.

Our business is built upon our people, our time-honored values, our approach to sustainability through the entire supply chain, and our community engagement. Our global network, our financial strength, and our leadership in change are the platforms for our continued success and future growth.

Net Gearing Ratio



* *As if the spin-off and distribution of Global Brands had occurred on 31 December 2013*

Net Gearing Ratio and Net Current Assets

Our net gearing ratio as stated in the audited consolidated balance sheet was 22% as of 31 December 2014 (versus pro forma gearing ratio of 26% as of 31 December 2013 as if the spin-off and distribution of Global Brands had occurred on 31 December 2013).

The Group continued to adopt a conservative approach in managing its balance sheet and capital structure. As at 31 December 2014, the Group maintained credit ratings from Moody's of Baa1 (stable outlook) and Standard & Poor's of BBB+ (stable outlook). The Group is committed to maintaining a solid balance sheet, healthy cash flow and strong credit ratios, with the overall long-term target of retaining an investment grade rating to support our growth.

Our current ratio as stated in the audited consolidated balance sheet was 1.0 as of 31 December 2014.

Banking Facilities

Bank Loans and Overdrafts

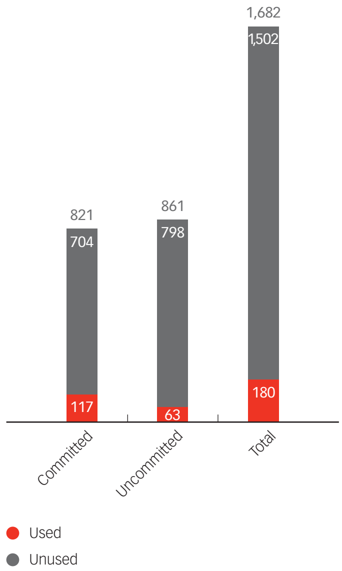
The Group (excluding Global Brands) had available bank loans and overdraft facilities of US$1,682 million, out of which US$821 million were committed facilities. As at 31 December 2014, US$180 million of the Group's bank loans and overdraft facilities were drawn down, with US$117 million being committed facilities. The unused limits on bank loans and overdraft facilities amounted to US$1,502 million, with US$704 million being unused committed facilities.

Trade Finance

The Group's normal trading operations are well supported by over US$2.5 billion in bank trading facilities including mainly letters of credit issued to suppliers and bills discounting. A letter of credit is a common means of payment to suppliers to support cross-border trades. The Group's payment obligations on letters of credit issued to suppliers is only crystallized when our suppliers have delivered the merchandise to our customers or to the Group in accordance with all of the terms and conditions specified in the related contractual documents. As at 31 December 2014, approximately 24% of the bank trade facilities were utilized.

Unused Bank Loans

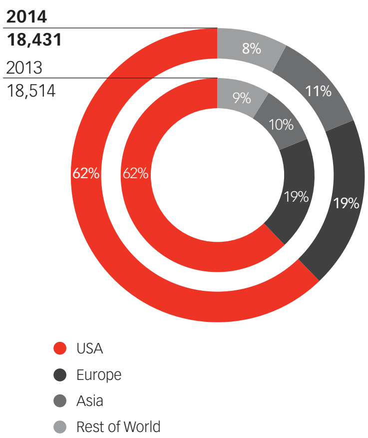
US$m



Excluding bank loans and overdraft from Discontinued Operation

Trading Network Geographical Market Turnover

US$m



Segment Analysis

Trading Network

Results

	2014 US$m	2013 US$m	Change %
Turnover	**18,431**	18,514	(0.5%)
Total margin	**2,004**	2,100	(4.6%)
As % of turnover	***10.9%***	*11.3%*	
Operating costs	**1,446**	1,398	+3.4%
As % of turnover	***7.8%***	*7.6%*	
Core Operating Profit	**558**	701	(20.4%)
As % of turnover	***3.0%***	*3.8%*	

Trading Network Business Model

Li & Fung aims to serve the business and product needs of our brands and retail customers no matter how they source. As a multi-channel sourcing supplier, our Trading Network offers customers with both agency-based sourcing services or product-focused principal solutions over a wide range of products. At Li & Fung, we pride ourselves as being the sourcing partner of choice in providing best-in-class sourcing solutions for a diverse mix of global brands and retailers.

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 buy 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 finalized, the Principal Trader would work with its vendor base to produce and deliver the products.

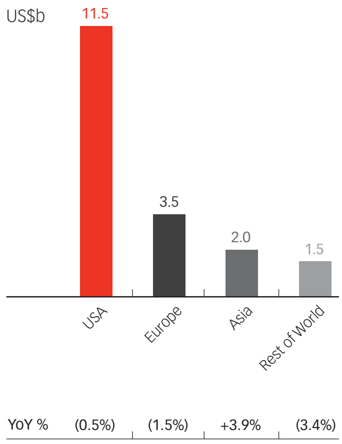
Over time, selected brands and retailers who wanted more control of the sourcing process have built their own in-house sourcing teams to work with overseas suppliers and factories, building up the standards of these factories, and managing the day-to-day order and production process. An outsourcing trend 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 our agency sourcing services, we have successfully captured this outsourcing trend and act as a strategic supply chain manager to handle the buying needs of brands and retail customers. As more brands have recently shifted from wholesale to retail by building up their own retail outlets, we are also gaining more brands and direct retailers as our customers. Given our scale and scope, we have also provided our customers with additional services such as trend forecasting, market intelligence, product development, raw

TURNOVER

Turnover in the Trading Network was flat in 2014 and comprised 63% softgoods and 37% hardgoods. In terms of regions, turnover in our US business was flat while turnover in our European business declined by 1% due to overall macroeconomic conditions. Turnover in our Asia business increased by 4% despite the slowdown in China and unexpected geopolitical events in other parts of Asia.

We signed a number of new sourcing deals with major customers in the US throughout 2014, and continued to increase turnover via cross-selling activities. In Asia in the beauty area, we secured the China distribution business for Coty.

On the e-commerce front, our customers' online sales have increased substantially leading to an increase in our Internet market share due to our role as a product supplier to these customers. In addition, we are making inroads into e-commerce pure play customers as their purchase volume reaches a level that would benefit from using our supply chain expertise.



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, such as Li & Fung.

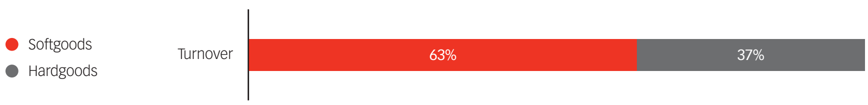
While the internet has provided a platform to make it easier for overseas buyers to locate factories, the work required in managing the day-to-day order and production process with factories, as well as maintaining the proper compliance and quality control standards, remain critical elements in sourcing. 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, production is now moving out of the relatively more expensive Chinese production bases to new frontier markets such as Vietnam, Bangladesh, Cambodia, Indonesia and India. This production migration is making the sourcing process increasingly more 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 China, and thus creating more complexity that requires someone, such as Li & Fung, with an extensive China network to assist our customers to navigate this process.

Today, buyers from brands and retailers source their products via all of these channels: in-house sourcing team, Agent, or Principal Traders being either on-shore domestic or off-shore overseas. In terms of channel size and buying pattern, sourcing through domestic or overseas Principal Traders constitutes the majority of the sourcing volume in the market today. To capture this principal trading channel, we have also built up our product-focused principal trading capabilities to act as a Principal Trader either as a domestic (on-shore) or overseas (off-shore) trading supplier to our customers. In our principal trading business, we trade with customers as a principal by providing fully developed market-ready products to our customers based on their needs and brand image. As a multi-channel sourcing supplier, we have full capabilities to fulfill our customers' sourcing needs via either agency-based sourcing services, or product-focused principal solutions.

TOTAL MARGIN

Total margin decreased by 5%. This was due to an overall reduction in business and margin in our trade with customers on a principal basis due to market conditions described above, which was somewhat offset by increased customers and business on our direct agency business side. Given that we serve customers on a multi-channel sourcing basis and that the margin differential between the two sourcing channels (long-term contracts with lower margin versus short-term principal trading with higher margin) differs, the shift in our turnover mix in 2014 impacted our overall total margin.

Product Mix



In addition, promotional activities were heavier in 2014 than previous years. For example, US stores began promotions before Black Friday, breaking from the norm, during the Holiday period. For the first time, retailers in Europe also offered similar promotions over the same period to counteract weak demand. Although promotions boosted sales, retailers' gross margins were impacted detrimentally. As a result, our product-led principal side faced pricing pressure during the year.

OPERATING COST

Operating cost increased by 3% in 2014, the first year of our Three-Year Plan when historically we invest in infrastructure, new product categories and new markets and services in preparation for a new plan.

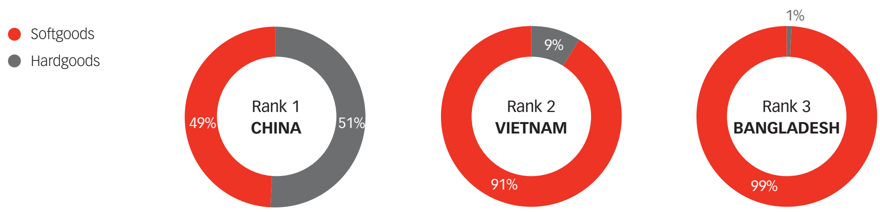
In addition, we have built up our Vendor Support Services team as a new initiative to improve supply chain sustainability and create the foundation for a whole new business whereby we provide services to our over 15,000 vendors. These services are organized into the three areas of Vendor Compliance & Sustainability Services, Trade Credit Services and Vendor Supply Chain Services, which includes digitization of our dealings with the vendor base via the Vendor Portal.

CORE OPERATING PROFIT

The 20% decline in core operating profit was mainly attributed to the reduction in total margin as a percentage of turnover from 11.3% to 10.9%. Operating cost as a percentage of turnover increased from 7.6% to 7.8% as a result of investments made during the year.

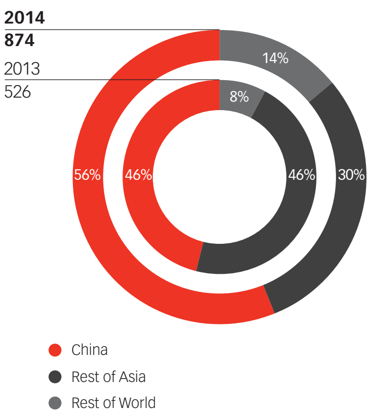
TOP SOURCING COUNTRIES

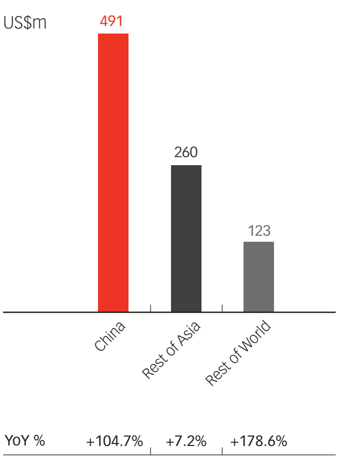
We have a global trading network covering more than 40 economies, which allows for flexibility when moving orders from one production country to another to handle capacity constraints and satisfy customers' needs. Within this global network, the Group's top three sourcing countries remained China, Vietnam and Bangladesh.



Logistics Network Geographical Market Turnover

US$m





Logistics Network

Results

	2014 US$m	2013 US$m	Change %
Turnover	**874**	526	+66.0%
Total margin	**240**	194	+23.6%
Operating costs	**194**	159	+22.5%
Core Operating Profit	**46**	36	+28.1%
As % of turnover	***5.2%***	*6.8%*	

The Logistics Network comprises our in-country logistics and global freight management businesses.

In-country logistics offers Asia-focused logistics and supply chain solutions, and specializes in the key verticals of footwear and apparel, fast-moving consumer goods, food and beverage, retail and electronics. Our Pan-Asian network and deep market knowledge allow us to customize hub-and-spoke logistics solutions for our customers. Riding on the rise of e-commerce and omni-channel retailing, we have deployed our best-in-class technology solutions to re-design our distribution center and operational flow. This has allowed us to optimize order fulfillment processes for both store distribution and direct-to-consumer delivery.

Global freight management offers cross-border logistics services at origin and destination to supplement our in-country logistics solutions and is particularly relevant for our sourcing customers. The scale of this business has increased significantly subsequent to the acquisition of CCL, a leading sea-freight forwarder in China, in the first half of 2014. This increased scale has given us the volume necessary to obtain highly favorable commercial arrangements with the global ocean carriers. As a result, we can offer our customers full container loads or consolidate less-than container load freight services in a cost effective and competitive manner.

Logistics Network Business Model

Our integrated logistics offering includes Asia-focused in-country logistics solutions and global freight management services. For in-country logistics, we help our customers set up and organize their hub and warehouse base, manage inventory, complete order fulfillment and perform last-mile delivery for both brick-and-mortar retail as well as e-commerce customers. Our unique e-logistics solution servicing the omni-channel space has helped our customers manage a seamless online and offline business. For global freight management, we aggregate the procurement of freight, plan and manage shipping routes, clear customs and handle all documentation requirements. We work closely with carriers to ensure our customers receive competitive shipping rates and quality of service for their freight forwarding needs. Over the years, we have built the Logistics Network to complement our global sourcing platform to help brand owners and retailers efficiently and effectively move products from the production source to the final consumer.

TURNOVER

Turnover increased by 66% due to across-the-board robust organic growth driven by new business wins, geographic expansion and increased market share. For in-country logistics, China (despite a general slowdown), Malaysia and the Philippines registered strong performance. For global freight management, the acquisition of CCL significantly added scale to our freight forwarding business.

CORE OPERATING PROFIT

Core operating profit increased by 28%. Core operating margin declined from 6.8% to 5.2% because of a change in business mix after the acquisition of CCL. Compared with our existing in-country logistics business, global freight management has a lower operating margin, in line with the industry standard.

People

As an asset-light business, our success is overwhelmingly dependent on our people. We are very grateful for their expertise, dedication and hard work. As at 31 December 2014, Li & Fung had a total workforce of 25,781, of which over 6,772 are warehouse-related workers for our logistics and distribution businesses. In terms of geography, 4,125 of our people were based in Hong Kong, 9,499 were based in Mainland China and 12,157 were based overseas.

Total manpower costs, excluding Global Brands, for 2014 were US$995 million, compared with US$951 million for 2013.

Outlook

For 2015, we believe the United States economy, which accounts for 60% of our business, should improve against the backdrop of an improving labor market, brighter consumer sentiment and increased consumer spending aided by falling oil prices. However, increasing online sales and the promotional environment in 2014 may become the new normal. Such a trend will continue to place pricing pressure on retailers and their supply chains, which may mitigate the anticipated improvement in the US market. We believe the Eurozone, on the other hand, will face ongoing challenges as both slowing economic growth and further devaluation of the Euro take their toll. We also expect China's economy to continue to slow.

Despite anticipated market conditions, we will continue to focus on winning new customers, especially in Asia. We aim to significantly strengthen our product dominance in key product categories while we continue to leverage our global production and sourcing base. Building on our success, we will accelerate the growth of our logistics business and fully roll out Vendor Support Services.

We expect our existing customers to continue to add an e-commerce dimension to their business as part of their overall omni-channel strategies. As a supplier to our customers, we expect the e-commerce related portion of our business to increase commensurately. In addition, we are pursuing opportunities to supply the appropriate pure play online retailers who have their own brands. As they mature and require supply chain management services, we anticipate further opportunities in this new channel of growth.

Our customers are challenged by the disruptions taking place at retail. Innovations in technology, evolving consumer expectations for seamless and exciting online to offline shopping experiences, coupled with significant changes in the industry, are challenging retailers globally. As the world's leading global supply chain manager, we are at the forefront of these changes. We are committed to creating value for our customers by sharing our thought leadership, experimenting with new technologies and ideas for products, and being the "go to" partner of choice for retailers and brands globally.

Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of the Group's acquired businesses, which are private enterprises relying on their respective entrepreneurs' commercial skills to drive their success, we generally structure our acquisitions with incentive schemes and contingent payments on purchase consideration payables linking to the future performance of the acquired businesses.

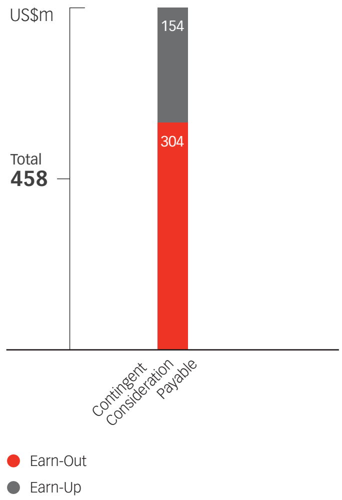
Li & Fung follows a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised) "Business Combination."

Our contingent consideration payables are performance-based payments in the form of "earn-out" and "earn-up" payments depending on a set of predetermined performance targets mutually agreed with the entrepreneurs in accordance with the sale & purchase agreement.

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

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

While many of our acquired businesses remain profitable and are growing, the Group may still be required to make a downward fair value adjustment to certain consideration payable should the acquired businesses be unable to achieve the predetermined performance threshold within the specific timeframe as stipulated in the sale & purchase agreement. Given that the contingent consideration entitlement is usually contractual in nature and is based on a specific formula linking to a particular threshold, the underlying business performance of the acquired businesses could continue to perform and grow, yet the Group may still be required to adjust the consideration payable, especially if the high performance thresholds of earn-ups are not reached. For the year ended 31 December 2014, there was approximately US$176 million of write-back of contingent considerations, the majority of which was earn-ups.



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Current Portion

Goodwill Impairment Tests

We performed goodwill impairment tests based on the cash generating units (CGU) which manage the acquired businesses in accordance with HKAS 36. Based on the Group's assessment of all of the CGUs under the current operating structure, the Group has determined that there is no goodwill impairment as of 31 December 2014, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. The Group will continue to perform goodwill impairment tests on an ongoing basis.

Risk Management

Li & Fung has strict policies governing accounting control, credit and foreign exchange risk and treasury management.

Credit Risk Management

Credit risk mainly arises from trade and other receivables. The Group has stringent policies in place to manage its credit risk with such receivables, which include, but are not limited to, the measures set out below:

- The Group selects customers in a cautious manner. Its credit control team has implemented a risk assessment system to evaluate the financial strength of individual customers prior to agreeing on trade terms. It is not uncommon for the Group to require securities (such as standby or commercial letters of credit, or bank guarantees) from a small number of its customers who fall short of the required minimum score under its Risk Assessment System;
- A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;
- A system with a dedicated team and tightened policies has been established to ensure on-time recoveries from trade debtors; and
- Rigid internal policies which govern provisions made for both inventories and receivables are in place to motivate business managers to step up their efforts in these two areas and to avoid any significant impact on their financial performance.

Foreign Exchange Risk Management

Most of the Group's cash balances are deposits in HK$ and US$ with major global financial institutions, and most of the Group's borrowings are denominated in US$.

The Group's revenues and payments are transacted mainly in the same currency, and are predominantly in US$. Therefore, the Group does 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 the Group arranges hedging by means of foreign exchange forward contracts.

The Group's net revenues are substantially in US$. A portion of our net revenues and operating costs in selected sourcing countries are exposed to changes in foreign exchange rates. In order to mitigate the impact from changes in foreign exchange rates, we regularly review our operations in these selected countries and make necessary hedging arrangements in certain currencies against the US$. From a medium to long-term perspective, we manage our operations in the most cost effective way possible within our global network.

The Group in general does not enter into foreign currency hedges with respect to its long-term equity investments. In particular, the Group's net equity investments in non-US$ denominated on-shore wholesale businesses are subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US$ 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.

The Group strictly prohibits any financial derivative arrangement merely for speculation.

Tax Dispute Update

In December 2014, the Group reached a settlement with the Hong Kong Inland Revenue (HKIR) in relation to disputes involving additional tax assessments amounting to approximately US$251 million on both the non-taxable claim of certain non-Hong Kong sourced income ("Offshore Claim") and the deduction claim of marketing expenses ("Deduction Claim") for the years of assessment from 1992/93 to 2012/13.

Under the terms of the settlement, the appeal by one of the subsidiaries of the Group, Li & Fung (Trading) Limited, on the Deduction Claim for the years of assessment from 1992/93 to 2001/02 before the Court of First Instance and the Board of Review was settled and discontinued. The Group's dispute with the HKIR regarding the additional tax assessments in respect of certain other subsidiaries for the years of assessment from 1992/93 to 2001/02, and in respect of the Group for the period from 2002/03 to 2012/13 were also resolved as part of this settlement.

Having taken into account the assessment of the Group's professional advisors and the impact and ramifications of the judicial rulings, the Directors consider that the settlement reached with the HKIR is in the interest and benefit of the Group, and brings certainty and finality to the tax affairs of the Group for the years of assessment from 1992/93 to 2012/13. The Directors consider that the settlement does not have any material impact on the Group's financial position.

Conclusion

In conclusion, 2014 was a year of transition and investment for Li & Fung. We have simplified our business model and refocused back to our core business of sourcing and logistics which has the attributes of low volatility, asset light and strong cash flow generation. Our multi-channel sourcing platform offers flexible, value-creating solutions for customers. We continue to invest in the short, medium and long term to generate growth and to build a sustainable enterprise. Our Trading core customers and Logistics business remain solid with a strong pipeline. Our long-term goal is to establish thought leadership in global retail, supply chain and innovation.

I am confident that we have the right team and the right structure to continue to create value for our customers and to generate organic growth. I would like to thank all of our people for their effort and significant contributions over the past year.

Spencer Theodore Fung
Group Chief Executive Officer