Our performance

Results Overview

2015 Performance

Results

	2015 US$m	2014 US$m	Change %
Turnover	**18,831**	19,288	(2.4%)
Total Margin	**2,189**	2,244	(2.5%)
% of Turnover	***11.6%***	*11.6%*	
Operating Costs	**1,676**	1,640	+2.2%
% of Turnover	***8.9%***	*8.5%*	
Core Operating Profit	**512**	604	(15.2%)
% of Turnover	***2.7%***	*3.1%*	
Loss from Discontinued Operations	**–**	(98)	
Profit Attributable to Shareholders	**421**	441	(4.6%)
Profit Attributable to Shareholders (ex-Loss from Discontinued Operations)	**421**	539	
% of Turnover	***2.2%***	*2.8%*	

Against a backdrop of one of the most challenging retail environments seen for many years, Li & Fung delivered a resilient performance in 2015. Our Trading Network held up well while our Logistics Network continued to grow. Despite headwinds from currency depreciation and a deflationary environment, our turnover with core trading customers and unit volume grew. Our logistics business maintained its strong profitable growth momentum across its in-country logistics and global freight management services. The growth was even stronger in the e-logistics operations which took advantage of the e-commerce boom. Accordingly, in spite of the economic slowdown in many parts of Asia and the unprecedented drop in ocean freight rates, our Logistics Network finished the year showing both turnover and unit volume growth.
Our business continued to be highly cash generative, allowing us to end the year in a solid financial position. We continue to maintain a high dividend payout ratio. Over the past three years, we have returned over US$1.2 billion in cash dividends to our Shareholders.

2015 was a difficult year due to economic slowdown and political uncertainties in Europe and Asia. While the US is slowly recovering, retailers were adversely affected by the soft retail environment, unseasonably warm weather, and global geopolitical disturbances. In the meantime, increased competition from fast fashion, off-price and e-commerce players continue to challenge our retail customers in a highly promotional retail environment. This resulted in margin pressure for all brands and retailers and impacted the entire supply chain.

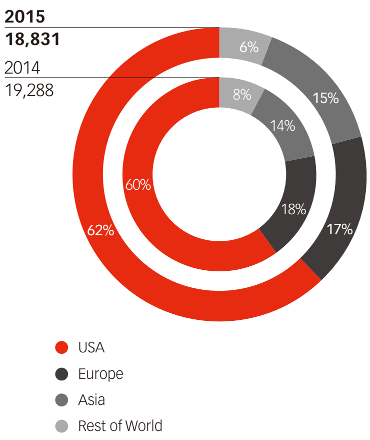
We have been executing strategies to help our customers navigate an increasingly competitive market. Differentiated and innovative products help our customers improve their competitiveness and gain market share without the need to lower prices to attract sales. As their strategic sourcing partner, we are deepening our focus on product expertise, to help our customers counter margin pressures. Leveraging our scale and scope across a wide range of product categories, we created product verticals in areas we consider to have high growth potential. In 2015, we reorganized our internal teams and resources to focus on developing certain product verticals, initially with furniture, beauty and sweaters, with other verticals to be established. Our strengthened product expertise enables us to provide our customers with meaningfully differentiated products, to help them remain competitive in a difficult retail landscape.

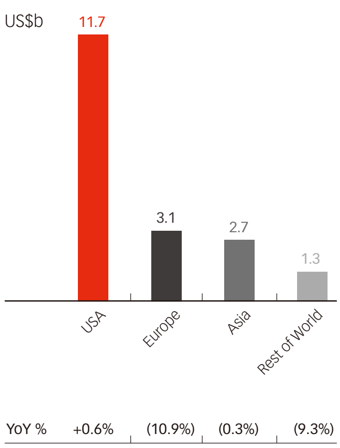
Our multi-channel sourcing platform gives us the flexibility to serve our customers regardless of their sourcing strategies, enabling us to grow unit volume and gain wallet share in these tough times. Our extensive global network, strong customer relationships and deep product expertise across a wide range of categories enable us to provide customers with better and value-added solutions. Our Vendor Support Services (VSS) further strengthened our relationships with our suppliers, turning our factories into a new customer base for the Group.

Operating in one of the most demanding business environments in recent history, we are confident we will continue to help our customers ride through challenging times. Our speed to market, global connectivity and deep product and industry expertise help us win new accounts and cement us as the partner of choice in the global consumer goods supply chain.

Group Geographical Market Turnover

US$m





TURNOVER

Our turnover decreased by 2% year-on-year to US$18.8 billion, largely due to the soft macroeconomic conditions and challenging retail environment adversely impacting our trading customers. Our Trading Network was negatively impacted by the continued deflationary environment caused by price declines in raw materials and commodities. The weakness of European and Asian currencies has resulted in an unfavorable foreign exchange translation impact, as 38% of our business operates in non-US markets. This foreign exchange translation impact alone accounted for approximately two-thirds of the 2% year-on-year decline in our total turnover. Nevertheless, 2015 saw solid unit volume growth, especially with our core customers. Our businesses in the e-commerce segment has also increased significantly as our customers gain market share in e-commerce orders and pure play e-tailers started developing private label collections.

The US and Europe remained the largest contributors to our turnover, contributing 62% and 17%, respectively. Our Trading Network contributed 95% of total turnover and our Logistics Network contributed 5%.

Turnover from the US remained flat at US$11.7 billion as consumer spending on general apparel, footwear and accessories did not show meaningful improvement despite the significant drop in oil prices. Our US business was supported by the increase in trading with our core customers, as well as the gradual ramp up of our business with new customers. Despite the slow recovery in US retail, our ability to offer customers the flexibility to procure products via our multi-channel sourcing platform has proven to be the key driver of our unit volume growth, allowing us to weather the downturn and support our total turnover.

Turnover from Europe decreased by 11% to US$3.1 billion. The environment in Europe continued to be weak; recovery in the European economies was slow and shadowed by growing concerns over threats of geopolitical instability as well as social and economic repercussions from Europe's migrant crisis. The pressure on Eurozone currencies has in turn impacted our European business from a currency translation perspective.

Asia contributed 15% of our turnover and remained flat at US$2.7 billion due to the slowdown in China and other Asian economies, as well as a negative foreign exchange translation impact. Approximately 72% of our turnover from Asia was from our Trading Network and the remainder from our Logistics Network. The continued growth of our Logistics Network in the region, which was largely supported by new contracts and geographical expansion within Asia, particularly into Southeast Asian countries, has provided strong support to our overall Asia business despite a reduction in turnover in Asia within the Trading Network.

The Rest of World represents approximately 6% of the total turnover, and is mainly comprised of Canada, Australia, Middle East and Latin America. The reduction of 9% to US$1.3 billion was largely due to a reduction in orders by our customers in those regions, as well as the depreciation of local currencies against the US$.

TOTAL MARGIN

Total margin of US$2.2 billion decreased by 2% over 2014 due to reduction in turnover, while the overall total margin percentage was stable at 11.6%. The lower reported turnover, partly affected by the negative foreign exchange impact, had a direct impact on our total margin. While our agency margins remained stable, our principal margins were affected by the highly promotional retail landscape and downward pressure on retailer's margins. Our Logistics Network continued its strong performance, which supported our overall total margin.

OPERATING COSTS

Operating costs increased by 2% year-on-year to US$1.7 billion and operating costs as a percentage of turnover increased from 8.5% to 8.9%, primarily due to the growth of our logistics business and annualization of strategic investments made in 2014. These investments included the expansion of our logistics business, build out of our VSS team, upgrade of group-wide infrastructure, as well as development of new product categories, markets and services. The majority of these investments are related to people and rental costs and therefore recurring in nature. The increase in operating costs from our strategic investments was offset by cost efficiencies extracted from our existing operations. While the total operating costs increased by 2% for the year, operating costs in the Trading Network remained flat for the entire year. In addition, year-on-year total operating costs for the Group was flat in the second half of 2015, despite the investments made in 2014 and the difficult operating environment during this period.

CORE OPERATING PROFIT

Core operating profit decreased by 15% year-on-year to US$512 million due mainly to the 2% reduction in total margin, as well as the 2% increase in operating costs to support our logistics business expansion. With the continued growth across the Logistics Network, its core operating profit increased to 10% of the Group's core operating profit in 2015.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to Shareholders decreased by 5% year-on-year to US$421 million, which included a non-cash gain of US$117 million on the write-back of contingent considerations (2014: US$176 million). In 2014, our profit attributable to Shareholders included a non-recurring loss from Discontinued Operations of US$98 million for Global Brands Group operations during the first half of 2014 prior to the spin-off.

Segment Analysis

Trading Network

In our Trading Network, we provide end-to-end sourcing solutions through our global network for a diverse mix of global brands and retail customers. As a multi-channel sourcing supplier, we have the unique capability to serve our customers' business and product needs regardless of how they source their products; either through our agency-based sourcing services or our product-focused principal trading solutions over a wide range of consumer products and categories.

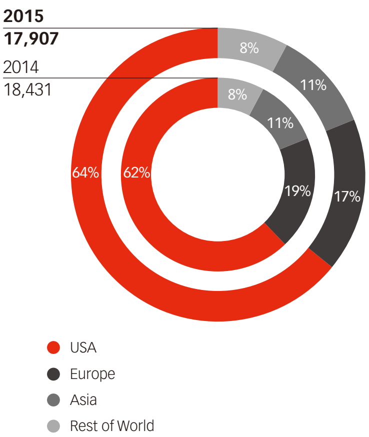
Our agency-based sourcing services, in which we act as a strategic sourcing partner to our customers under long-term contracts, provide a steady base and represent a significant part of our Trading Network business. Under our agency sourcing arrangements, we provide strategic sourcing services to our customers, such as product development and costing, factory compliance, order processing, manufacturing control and logistics. To enhance our customers' competitiveness, we also provide trend forecasting, market analysis, industry intelligence, raw material procurement and strategic insights on the global supply chain to help our customers procure high quality products with short lead time and speed to market.

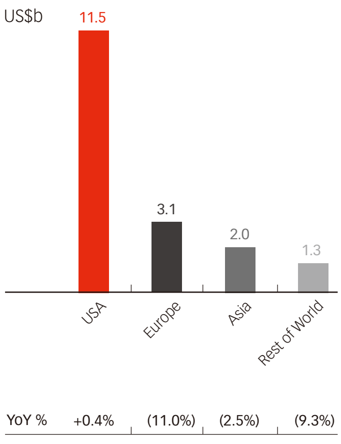
In our product-focused principal trading business we act as a principal supplier to our customers, operating primarily on a merchandise program-by-program basis; where the terms of each order are mutually agreed on a per program basis. We are continuing to develop our product expertise and move deeper into product verticals to solidify our leadership position in specific product categories. The combination of our agency and principal capabilities make Li & Fung the leading global sourcing supplier, offering both types of services with scale and scope.

The retail landscape has been evolving as it adapts to changes in consumption behavior, advent of technology and 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 optimize their sourcing strategy and stay ahead of the market.

Trading Network Geographical Market Turnover

US$m





Trading Network Results

	2015 US$m	2014 US$m	Change %
Turnover	**17,907**	18,431	(2.8%)
Total Margin	**1,909**	2,004	(4.7%)
% of Turnover	***10.7%***	*10.9%*	
Operating Costs	**1,449**	1,446	+0.2%
Core Operating Profit	**460**	558	(17.6%)
% of Turnover	***2.6%***	*3.0%*	

TURNOVER

Turnover of the Trading Network, comprising 62% soft goods and 38% hard goods, decreased by 3% year-on-year to US$17.9 billion in 2015 in spite of an increase in unit volume during the year. The decrease in turnover is attributable to the deflationary environment in sourcing prices and the slowdown in both Europe and Asia. Furthermore, our reported turnover was severely affected by a negative foreign exchange translation impact resulting from the depreciation of both European and Asian currencies against the US$. Foreign exchange translation impact alone accounted for over half of the 3% year-on-year decline in our total turnover within the Trading Network.

Turnover in our US business remained flat at US$11.5 billion, largely supported by overall trading unit volume growth, particularly with our core customers. However, such growth was offset by price reduction due to deflationary prices, which impacted our agency business.

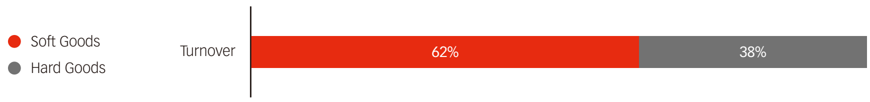
Our European business declined by 11% year-on-year to US$3.1 billion due largely to the unfavorable foreign exchange translation and the uncertain macroeconomic conditions in Europe. Our European business is primarily comprised of our principal trading business, which transacts in the respective local currencies. The depreciation of the Euro and Pound against our reporting currency during the year had a significant translation impact on our European business turnover as reported in US$.

Turnover in Asia decreased by 2.5% year-on-year to US$2.0 billion. In particular, our Asian distribution business suffered from the slowdown in China, geopolitical issues in Southeast Asia and the Asian currencies depreciation against the US$. Turnover in the Rest of World decreased by 9% year-on-year to US$1.3 billion due mainly to the overall reduction in orders by our customers in regions, such as Canada, Australia, the Middle East and Latin America, as well as foreign currency impact.

Across our Trading Network, we serve a diversified group of customers globally, ranging from brands, department stores, specialty stores, clubs, hypermarkets and pure play e-commerce players. Our top five customers, some of which we serve across both our Trading and Logistics Networks, accounted for 36% of our total Group turnover in 2015. Our customer base has been evolving, as we overtime increase the proportion of brands, specialty retailers, off-price discount stores, and an emerging group of pure play e-commerce players. Our core customers form the foundation of our business, many of whom we serve on both agency and principal-trading terms. Our relationships with core customers are strategic and long term in nature, with our sourcing teams fully aligned to our customers' procurement needs, and working with their teams closely on a daily basis.

While focusing on our core customers, we are always seeking new business opportunities and have built a strong prospective customer pipeline. In 2015, we signed a number of significant contracts for our agency-based services. On the e-commerce sourcing front, we continue to increase our share of Internet sales as our brands and bricks-and-mortar customers increase their online sales. In the meantime, pure e-commerce players have begun to establish their own private label collections and we are well placed to provide such private label services going forward.

Product Mix



TOTAL MARGIN

Total margin across the Trading Network decreased by 5% year-on-year to US$1.9 billion as a result of the decrease in total turnover and continued margin pressure on our principal business. The negative foreign exchange impact on turnover had a direct corresponding impact on total margin. Total margin percentage decreased from 10.9% in 2014 to 10.7% in 2015. Total margin percentage in our service-based agency business remained steady, given stable agency rates stipulated in the multi-year contracts. Total margin percentage in our principal business was under pressure as our customers faced their own pricing pressure with changes in the retail landscape and the need to make adjustments to their supply chains, which typically take time.

The unusually warm winter in 2015, as well as the heavier promotional activities throughout the year significantly impacted brands and retailers' gross margins, which also led to margin pressure throughout the entire supply chain. In response to such margin pressure, we continue to work closely with our customers to adjust their supply chains and optimize their sourcing strategies, as well as provide differentiated, innovative and well-designed products to support higher margins. The establishment of product verticals further enhances our product expertise and solidifies our leadership position as a principal trading supplier.

Our multi-channel sourcing platform enables us to provide customers with both agency and principal-trading services. Margin differs between the two sourcing channels. Long-term agency contracts have lower margins versus the higher program-by-program principal trading margins. Our overall total margin percentage was negatively impacted by our turnover mix in 2015 which shifted to slightly more agency service business.

OPERATING COSTS

Operating costs in our Trading Network remained relatively flat at US$1.4 billion largely helped by improved operational efficiencies and productivity despite the annualization of investments made in 2014.

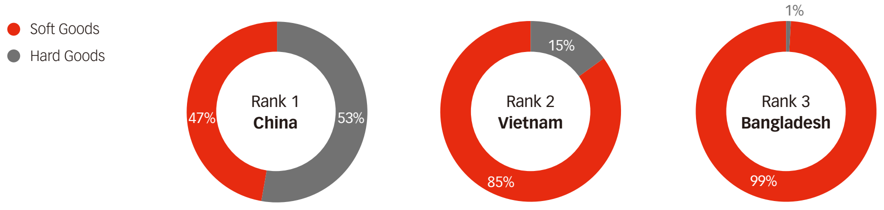
In 2015, we continued to optimize our operating expenses and deploy resources to support our growth in new customer accounts, increased unit volumes and enhancement of our product expertise. At the same time, we continued to streamline our operations and look for process efficiency and productivity gain to keep total operating costs flat amid the challenging market conditions. In addition, we continued to invest in the required infrastructure and resources for VSS.

CORE OPERATING PROFIT

The 18% year-on-year decline in core operating profit to US$460 million was attributed to a decline in turnover of 3% and a decline in total margin of 5%, while operating costs remained flat year-on-year. Core operating profit margin decreased from 3.0% in 2014 to 2.6% in 2015 as a result of the decline in total margin percentage from 10.9% to 10.7% and increase in operating costs percentage from 7.8% to 8.1%.

TOP SOURCING COUNTRIES

Our global network covers 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, our top three sourcing countries continue to be China, Vietnam and Bangladesh. While China accounted for over 50% of our sourcing unit volume, the remaining 40+ 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 decanting 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.



VENDOR SUPPORT SERVICES

Our VSS unit was formed in the first year of our current Three-Year Plan to tap the huge potential of converting our factory base of over 15,000 to a customer base for services relating to the migration of labor intensive production from China to other developing countries. After making initial investments, pilot programs were launched in selected countries in 2015. We rolled out our digital vendor portal to connect with all our vendors, launched the bulk purchase programs in raw materials procurement and product liabilities insurance and developed working capital management tools and services for our suppliers, as well as initiated various vendor compliance services. The initial pilot phase in 2015 tracked better than expected and we exceeded our target of VSS breaking even in 2015 by generating a small profit.

Logistics Network

Our logistics business provides 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 optimize 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 specializes in the key verticals of footwear and apparel, fast-moving consumer goods, food and beverage, retail and electronics. 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 center 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 China Container Line 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.

Logistics Network Results

	2015 US$m	2014 US$m	Change %
Turnover	**932**	874	+6.7%
Total Margin	**280**	240	+16.4%
Operating Costs	**227**	194	+16.9%
Core Operating Profit	**53**	46	+14.6%
% of Turnover	***5.6%***	*5.2%*	

TURNOVER

Turnover increased 7% year-on-year to US$932 million, largely driven by new business wins, geographical expansion and increased market share. This was offset by the substantial drop in global freight rates especially in the second half of the year, continued softness in global trade and the devaluation of currencies against the US$. In local currency terms, our logistics business generated a double-digit increase in total turnover.

Our in-country logistics business contributed the majority of net sales in 2015. This sustained strong organic growth momentum was driven mainly by new business wins and geographical expansion. China continued to be our largest market. Despite the slowdown in Asian economies, which significantly impacted the business flow of our customers, we grew our business by winning new customers, as well as by expanding services or geographical coverage with existing customers. This is reflected in the high number of new business contracts we signed during the year. Our entrance into Korea, Japan and Indonesia also began to generate positive contribution. Most encouraging of all is our sustained momentum in gaining market leadership in e-logistics, having achieved a highly successful Singles' Day operation in China. We continued to focus on optimizing our network of depots and warehouses, the latest of which is a state-of-the-art facility in Singapore, which consolidates five warehouses into a one-million-square-foot regional distribution center.

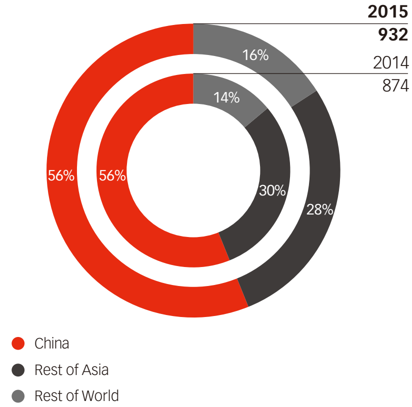
During 2015, the global freight industry was plagued by an unprecedented decline in freight rates as a result of overcapacity in carriers, lower oil prices and a slowdown in demand. Despite these challenges, we have managed the margin impact to our global freight business through prudent freight procurement and active contract management. Our global freight management business also gained market share through geographical expansion and successful cross-selling of our freight services to our Trading Network customers. At the same time, we continued to upgrade our IT infrastructure to improve efficiency in transport management and global freight optimization.

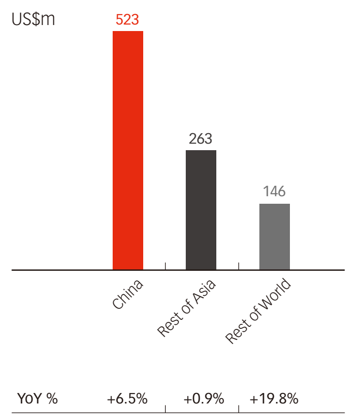
CORE OPERATING PROFIT

Core operating profit increased by 15% year-on-year to US$53 million and core operating profit margin improved from 5.2% to 5.6% in 2015. The improvement in margin was mainly due to our increased scale, continued focus on optimizing our customer portfolio and productivity through enhanced operating efficiency.

Logistics Network Geographical Market Turnover

US$m





Balance Sheet and Capital Structure

Strong Cash Position

Li & Fung has a strong and stable cash flow conversion business which, together with cash on hand carried forward from the previous year, more than adequately funded our working capital, dividends, interest expenses and capital expenditure in 2015.

- Operating cash flow of US$544 million is in line with core operating profit after working capital and depreciation adjustments and tax payments
- Capital expenditures of US$83 million and payments for consideration payable for previous acquisitions of US$102 million
- Dividends paid of US$445 million
- Net interest expenses paid of US$83 million, and distribution to perpetual capital securities holders of US$30 million

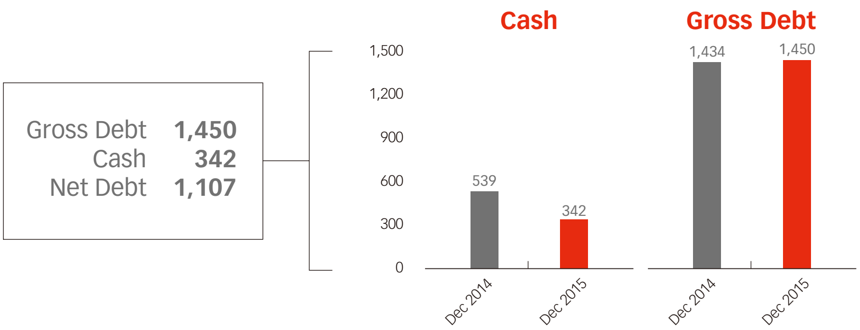
In terms of future commitments, the remaining balance of total purchase consideration payable for acquisitions was reduced to US$243 million by the end of 2015, of which US$181 million are earn-out payments to be paid over the course of the next three years. Our ongoing total capital expenditures are mainly comprised of IT system upgrades, expansion of our logistics business and ongoing maintenance capital expenditures, while we remain asset-light.

Solid Balance Sheet

Our balance sheet remained strong with a cash position of US$342 million, after payment of 2014 final and special dividends and 2015 interim dividend. Our total borrowing remained stable at US$1,450 million as of 31 December 2015, with a weighted average tenure of over three years. The majority of our debt is at a fixed rate and denominated in US dollars. Our net debt (total borrowings minus cash) was at US$1,107 million as of 31 December 2015.

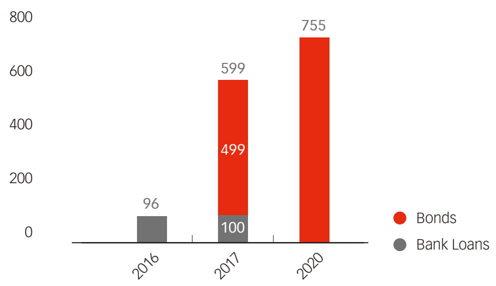
Cash and Gross Debt

US$m

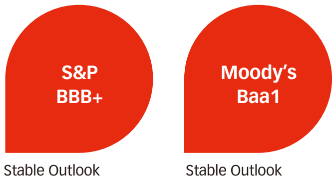


Debt Maturity Schedule

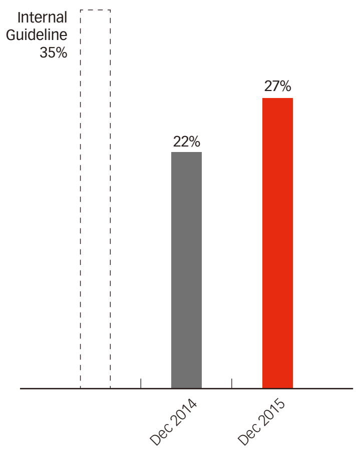
US$m



Credit Rating



Net Gearing Ratio



Net Gearing and Net Current Assets

Our net gearing ratio as stated in the audited consolidated balance sheet was 27% as of 31 December 2015 (31 December 2014: 22%).

We continued to adopt a conservative approach in managing our balance sheet and capital structure. As at 31 December 2015, our credit ratings from Moody's is Baa1 (stable outlook) and Standard & Poor's is BBB+ (stable outlook). We are 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 at 31 December 2015.

Banking Facilities

Bank Loans and Overdrafts

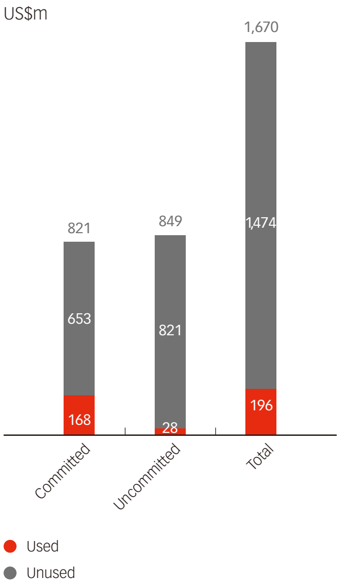
As at 31 December 2015, we had available bank loans and overdraft facilities of US$1,670 million comprising US$821 million committed and US$849 million uncommitted facilities. At the end of 2015, US$196 million of our bank loans and overdraft facilities were drawn down, with US$168 million from committed facilities. The unused limits on bank loans and overdraft facilities amounted to US$1,474 million and this included US$653 million unused committed facilities.

In early 2016, we successfully secured additional committed facilities with extended tenure. At the date of this Report, the total committed facilities increased to US$876 million, of which US$726 million were revolving facilities with tenure up to three years due in 2019, while the total available bank loans and overdraft facilities remained at US$1,670 million.

Trade Finance

Our normal trading operations are well supported by approximately US$2.5 billion in bank trading facilities including mainly letters of credit issued to suppliers and bills discounting. Letters of credit are a common means of payment to suppliers to support cross-border trades. Our payment obligations on letters of credit issued to suppliers is only crystalized when our suppliers have delivered the merchandise to our customers, or to us, in accordance with the terms and conditions specified in the related contractual documents. As at 31 December 2015, approximately 22% of the trade facilities were used.

Unused Bank Loans



Contingent Liabilities and Goodwill

Adjustments to Purchase Consideration Payables

Given the unique nature of our 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.

We follow a stringent internal financial and accounting policy in evaluating potential adjustment to the estimated fair value of purchase consideration payable in accordance with the accounting standard HKFRS 3 (Revised) "Business 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 high performance target threshold and are typically payable over a period of up to five to six years upon completion of a transaction if earned.

While many of our acquired businesses remain profitable and are growing, we may still be required to make a downward fair value adjustment to certain 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 we 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 2015, there are approximately US$117 million of write-back of contingent considerations, the majority of which are in the form of earn-ups.

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 our assessment of all of the CGUs under the current operating structure, we have determined that there is no goodwill impairment as of 31 December 2015, as the recoverable amount of each CGU was in excess of its respective carrying value of the goodwill. We will continue to perform goodwill impairment tests on an ongoing basis.

Risk Management

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

Credit Risk Management

Credit risk mainly arises from trade and other receivables. Our principal trading business carries a higher credit risk profile given we are acting as a supplier and we therefore have to take full counterparty risk of our customers in terms of accounts receivable and inventory. With the increased insolvency risk among global brands and retail customers, we have deployed a global credit risk management framework with tightened risk profile, and applied prudent policies to manage our credit risk with such receivables, which include, but are not limited to, the measures set out below:

- We select customers in a cautious manner. Our 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 us to require securities (such as standby or commercial letters of credit, or bank guarantees) from customers who fall short of the required minimum score under our risk assessment system
- A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis
- A credit risk system with a dedicated team and tightened policies has been established to ensure on-time recoveries from trade debtors
- 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 our cash balances are deposits in HK$ and US$ with major global financial institutions, and most of our borrowings are denominated in US$.

Our revenues and payments are transacted mainly in the same currency, and are predominantly in US$. 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 by means of foreign exchange forward contracts.

For transactions 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 selected countries and make necessary hedging arrangements in certain currencies against the US$. However, we do not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of our non-US$ foreign operations for both our income statements and balance sheet reporting purposes. Since our functional currency is in US$, we are subject to exchange rate exposure from translation of foreign operations' local results to US$ at average rate for the period for group consolidation. Our net equity investments in non-US$ denominated businesses are also 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.

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.

People

As an asset-light business, our success is overwhelmingly dependent on our people. We are very proud of and grateful for their expertise, dedication and hard work. As at 31 December 2015, we have a total workforce of 25,320, of which 7,106 are warehouse related workers for our logistics and distribution businesses. In terms of geography, 4,251 of our people were based in Hong Kong, 9,282 were based in Mainland China and 11,787 were based overseas.

Total manpower costs for 2015 were US$1,025 million, compared with US$995 million for 2014, with the majority of the increase due to share awards granted to employees during the year, as well as from expansion in our logistics business.

Outlook

We expect 2016 to be a challenging year given little indication of a turnaround of the global economy and retail sector in the near term. We believe the trading environment will remain weak while deflationary pressure will increase. The retail landscape is likely to remain clouded by a promotional environment, geopolitical instability and unpredictable weather patterns. In the meantime, we will continue to gain market share from existing customers, continue cross-selling within the Group, cultivate new accounts and improve productivity and operational efficiencies. Our current pipeline of opportunities is strong and we are targeting for more new customer wins this year. Through the ongoing development of our product verticals and the incubation of product categories with growth potential, we will further deepen our product expertise and deliver value to our customers. We also expect the contribution from VSS to grow over the next few years as our suite of services is gradually developed and rolled out. VSS is targeted to contribute 5% of our core operating profit in 2016, and gain greater traction in the coming years.

We expect our logistics business will continue to deliver strong growth as it continues to capture market share through e-logistics, cross border freight and value-added services. Global freight rates are expected to remain subdued due to the imbalance between supply and demand as well as overcapacity, which is unlikely to be resolved in the near future. Nonetheless, we will continue to focus on our strengths in executing our strategy, and supporting the needs of our customers. We will continue to deepen our relationships with our existing core customers, and nurture relationships with new customers, with the goal of growing their sales.

We are focused on investing into the future through partnership opportunities to collaborate on innovation in technology and data analytics. Our new presence in Silicon Valley demonstrates our commitment to innovation, and we will continue to experiment and develop high-quality products that are differentiated and to suit the continuous changing consumers' preferences.