

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017.

Principal Activities, Analysis of Operations and Business Review

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in Note 43 to the financial statements.

Details of the Group's turnover and contribution to operating profit of the Group for the year by segments are set out in Note 3 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2017, and an indication of likely future development in the Group business, can be found in the preceding sections of this Report set out in pages 4 to 147. The preceding sections form part of this Report.

The Directors recognize the importance of sound environmental, social and governance ("ESG") practices to support the sustainable development of the Group's business today and for the long term. The Board and its committees oversee the Group's management of ESG performance and the implementation of its sustainability strategy. The Risk Management and Sustainability Committee ("RMSC") is particularly focused on reviewing and advising on the Group's ESG risk management and performance. Details regarding the roles, responsibilities and actions of the RMSC are provided on page 56 of this Report, and its terms of reference is available on our website.

The Group maintains appropriate systems to manage risk and to meet relevant legal requirements and standards related to corporate governance, business operations, employment, health and safety, the environment and the supply chain. With regard to the environment and as part of its sustainability strategy, the Group implements initiatives to manage its footprint and address climate change, monitor performance and adopt improvement actions. Details on policies adopted and performance achieved are outlined in "Our footprint" on pages 138 to 147 and demonstrate the Group's continued efforts to reduce the environmental impact of its operations.

Engaging stakeholders is an ongoing and important part of the Group achieving its business objectives. The Directors review the Group's approach to engaging with its key stakeholders who include shareholders and investors, customers, suppliers and business partners, employees, governments, industry and non-governmental organizations and the media. Regular communication and engagement with these stakeholders enables the Group to manage risk and address evolving requirements and expectations. Examples of how the Group engages with its stakeholders are provided throughout this Report and specifically on pages 92 to 142.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on pages 171 to 172.

The Directors declared an interim dividend of HK\$0.11 (equivalent to US\$0.014) per share, totalling US\$120,064,000 which was paid on 19 September, 2017.

The Directors recommend the payment of a final dividend of HK\$0.02 (equivalent to US\$0.003) per share, totalling US\$21,830,000.

The Directors declared a special dividend of HK\$0.476 per share absorbing approximately US\$520 million, payable out of part of the proceeds from the strategic divestment of Product Verticals business, be distributed to the Shareholders subject to Closing, as defined in the circular of the Company dated 9 January 2018 (Circular).

Distributable Reserves

At 31 December 2017, the reserves of the Company available for distribution as dividends amounted to US\$2,656,574,000, comprising retained earnings of US\$1,682,385,000 and contribution surplus of US\$974,189,000 arising from: (i) the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited; (ii) the issuance of shares for the acquisition of Colby Group Holdings Limited; (iii) the transfer from share premium of US\$3,000,000,000 offset by the distribution in specie of US\$2,290,000,000 (Note 39(a)).

Under the Companies Act 1981 of Bermuda (as amended), the contribution surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Donations

Charitable and other donations made by the Group during the year amounted to US\$742,000.

Ten-year Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2017 and for the previous nine financial years are set out in the "Ten-Year Financial Summary" section on pages 272 to 273.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

Long-term Incentive Schemes

(A) Share Option Schemes

2003 OPTION SCHEME

Pursuant to the terms of the 2003 Option Scheme, the 2003 Option Scheme is valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the 2003 Option Scheme expired on 11 May 2013 and no further options could thereafter be granted under the 2003 Option Scheme. However, all remaining provisions remain in full force and effect to govern the exercise of all the Share Options granted under the 2003 Option Scheme prior to its expiration.

As at 31 December 2017, there were Share Options relating to 12,000,000 Shares granted by the Company representing 0.14% of the issued Shares as at the date of this Report pursuant to the 2003 Option Scheme which were valid and outstanding.

2014 OPTION SCHEME

The 2014 Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014. As at 31 December 2017, there were Share Options relating to 86,893,000 Shares granted by the Company representing 1.03% of the issued Shares as at the date of this Report pursuant to the 2014 Option Scheme which were valid and outstanding.

Details of the Share Options granted under the 2003 Option Scheme and the 2014 Option Scheme that remain outstanding as at 31 December 2017 are as follows:

| Grant Date | Exercise Price HK\$ | Grantees | Number of Share Options | | | | Exercisable period |
|--------------------|------------------------|-------------------------------|-------------------------|---------|-------------|---------------------|--|
| | | | As at 1/1/2017 | Granted | Lapsed | As at 31/12/2017 | |
| 2003 Option Scheme | | | | | | | |
| 22/12/2011 | 12.12 ¹ | Spencer Theodore Fung | 7,000,000 | – | (1,000,000) | 6,000,000 | Exercisable in seven equal tranches during the period from 1/5/2015 to 30/4/2023 with each tranche having an exercisable period of two years |
| | | Marc Robert Compagnon | 7,000,000 | – | (1,000,000) | 6,000,000 | |
| 2014 Option Scheme | | | | | | | |
| 21/5/2015 | 7.49 ² | William Fung Kwok Lun | 7,509,000 | – | – | 7,509,000 | Exercisable in three tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years |
| | | Spencer Theodore Fung | 4,569,000 | – | – | 4,569,000 | |
| | | Marc Robert Compagnon | 3,945,000 | – | – | 3,945,000 | |
| | | Continuous Contract Employees | 68,648,000 | – | – | 68,648,000 | |
| 16/11/2015 | 5.81 ³ | Other Participants | 604,000 | – | – | 604,000 | Exercisable in two tranches during the period from 1/1/2017 to 31/12/2019 with each tranche having an exercisable period of two years |
| | | Continuous Contract Employees | 889,000 | – | – | 889,000 | |
| 19/5/2016 | 4.27 ⁴ | Continuous Contract Employees | 604,000 | – | – | 604,000 | Exercisable during the period from 1/1/2018 to 31/12/2019 |
| 13/7/2017 | 2.86 ⁵ | Continuous Contract Employees | – | 125,000 | – | 125,000 | Exercisable during the period from 1/1/2018 to 31/12/2019 |
| | | Total | 100,768,000 | 125,000 | (2,000,000) | 98,893,000 | |

NOTES:

- (1) Following the spin-off and separate listing of Global Brands, the exercise price applicable to the Share Options outstanding on the record date for the distribution in specie (i.e. 7 July 2014) was adjusted from HK\$14.50 to HK\$12.12 with effect from 31 August 2014.
- (2) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 20 May 2015 was HK\$7.29.
- (3) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 13 November 2015 was HK\$5.58.
- (4) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 18 May 2016 was HK\$4.25.
- (5) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange's daily quotation sheet on 12 July 2017 was HK\$2.85.
- (6) The above Share Options granted are recognized as expenses in the financial statements in accordance with the Company's accounting policy as set out in Note 1 to the financial statements. Other details of Share Options granted by the Company are set out in Note 24 to the financial statements.

The major terms of the 2003 Option Scheme and the 2014 Option Scheme (collectively, the "Share Option Schemes") are summarized as follows:

(i) Purpose

The purpose of the Share Option Schemes is to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to the selected qualifying participants; and to promote the long-term financial success of the Group by aligning the interests of the option holders to the Shareholders.

(ii) Qualifying Participants

Any employee, including any Executive or Non-executive Director of the Company or any affiliate, any consultant, agent, representative, advisor, customer, contractor, business ally or joint venture partner of the Group or any affiliate under the Share Option Schemes.

(iii) Maximum Number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the 2003 Option Scheme and the 2014 Option Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the respective date of approval of each of the Share Option Schemes. Following the expiration of the 2003 Option Scheme, no further share options can be granted under the 2003 Option Scheme.

The number of Shares available for issue under the 2014 Option Scheme is 749,146,830 Shares, representing 8.84% of the issued Shares as at the date of this Report.

Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes and any other share option scheme(s) of the Company must not, in aggregate, exceed 30% of the total number of issued shares of the Company from time to time.

(iv) Limit for Each Participant

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the Shares in issue.

(v) Option Period

The period within which the Shares must be taken up, an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Share Option Schemes do not specify any minimum holding period.

(vi) Acceptance and Payment on Acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing).

HK\$1.00 is payable by the grantee to the Company on acceptance of the offer.

(vii) Subscription Price

The exercise price must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

(viii) Remaining Life of the Share Option Schemes

The 2003 Option Scheme expired on 11 May 2013 and all outstanding Share Options granted under the 2003 Option Scheme and yet to be exercised shall remain valid.

Under the 2014 Option Scheme, the Board is entitled at any time within 10 years between 15 May 2014 and 14 May 2024 to offer the grant of an option to any qualifying participants.

(B) Share Award Scheme

The Share Award Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 21 May 2015.

During the year, a total of 69,865,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 8,734,000 Award Shares were awarded to connected persons. A total of 10,702,818 Shares held by the trustee of the Share Award Scheme in two separate funds had been applied to satisfy 4,080,918 Award Shares to connected persons and 6,621,900 Award Shares to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 4,653,082 Award Shares were purchased from the open market to satisfy awards to connected persons and 54,509,100 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.

As at 31 December 2017, the trustee of the Share Award Scheme held a total of 6,510,700 Shares in two separate funds. Out of 6,510,700 Shares, 221,000 Shares can be applied to satisfy awards to connected persons. The balance of 6,289,700 Shares can be applied to satisfy awards to non-connected persons.

The movement in the Award Shares under the Share Award Scheme during the year are as follows:

| Grant Date | Grantees | Number of Award Shares | | | | | Vesting Date |
|------------|--|------------------------|-------------------|---------------------|-------------------------|---------------------|--|
| | | As at 1/1/2017 | Granted | Vested | Unvested/ Forfeited* | As at 31/12/2017 | |
| 21/5/2015 | Spencer Theodore Fung | 540,000 | - | (270,000) | - | 270,000 | To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019 |
| | Marc Robert Compagnon | 459,800 | - | (230,000) | - | 229,800 | |
| | Connected Persons other than Directors | 4,091,200 | - | (2,044,600) | - | 2,046,600 | |
| | Non-connected Persons | 32,163,800 | - | (14,075,800) | (3,415,000) | 14,673,000 | |
| 16/11/2015 | Non-connected Persons | 844,600 | - | (263,800) | (131,000) | 449,800 | To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019 |
| 19/5/2016 | Connected Persons other than Directors | 22,000 | - | (7,400) | - | 14,600 | To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019 |
| | Non-connected Persons | 1,094,000 | - | (326,100) | (143,000) | 624,900 | |
| 14/11/2016 | Non-connected Persons | 197,000 | - | (63,800) | (11,000) | 122,200 | To be vested in three tranches with the vesting date on 31 December of each year from 2017 to 2019 |
| 13/7/2017 | Fung Kwok Lun William | - | 1,143,000 | - | - | 1,143,000 | To be vested in four tranches with the vesting date on 31 December of each year from 2017 to 2020 |
| | Spencer Theodore Fung | - | 1,143,000 | - | - | 1,143,000 | |
| | Marc Robert Compagnon | - | 953,000 | - | - | 953,000 | |
| | Connected Persons other than Directors | - | 5,495,000 | - | (221,000) | 5,274,000 | |
| | Non-connected Persons | - | 61,131,000 | (12,200) | (4,133,000) | 56,985,800 | |
| | Total | 39,412,400 | 69,865,000 | (17,293,700) | (8,054,000) | 83,929,700 | |

* Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme are held by the trustee to be applied towards future awards in accordance with the provisions of the Share Award Scheme.

The major terms of the Share Award Scheme are summarized as follows:

(i) Purpose

The purpose of the Share Award Scheme is (i) to align the interests of eligible persons with those of the Group through the ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares; and (ii) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

(ii) Eligible Persons

Any individual, being an employee, director, officer, consultant or advisor of any member of the Group or any affiliate (as defined in the Share Award Scheme) who the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

(iii) Awards

An award granted by the Board to eligible persons which may vest in the form of Award Shares or the actual price of the Award Shares in cash which are sold on the vesting of an award pursuant to the Share Award Scheme.

(iv) Granting of Awards

The Board may, from time to time, grant awards to any eligible person who the Board considers to have contributed or will contribute to the Group.

Each grant of an award to any Director or connected person of the Company shall be subject to the prior approval of the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is a proposed recipient of the grant of an award). The allotment and issue of new Shares in satisfaction of awards granted to connected persons of the Company (whether connected at the Company or subsidiary level), which constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, will be subject to independent Shareholders' approval requirements under Chapter 14A of the Listing Rules notwithstanding the mandate was granted to the Directors at the 2015 annual general meeting of the Company to allot and issue up to 3% of the total number of issued Shares as at 21 May 2015.

(v) Maximum Number of Shares to be Awarded

The maximum number of Shares, whether they are new Shares to be allotted and issued by the Company, or Award Shares that are not vested and/or are forfeited and held by the independent trustee to be applied towards future awards, or existing shares to be purchased on the market by the independent trustee, underlying all grants made pursuant to the Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Share Award Scheme) shall not exceed 3% (i.e. 250,811,949 Shares) of the total number of issued Shares as at the Adoption Date. As at the date of this Report, 131,374,549 Award Shares are available for the furthering grant of awards under the Share Award Scheme, representing approximately 1.55% of the Shares in issue.

The above limit can be renewed or refreshed subject to approval of Shareholders within 10 years from the Adoption Date.

(vi) Limited for Each Participant

Under the Share Award Scheme, there is no specified limit on the maximum number of Award Shares which may be granted to a single eligible person but unvested under the Share Award Scheme.

(vii) Termination

Subject to any early termination as may be determined by the Board, the Share Award Scheme will be valid and effective for 10 years commencing on the Adoption Date.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2017 are set out in Note 43 to the financial statements.

Associated Companies

Details of the Company's principal associated companies at 31 December 2017 are set out in Note 43 to the financial statements.

Joint Venture

Details of the Company's principal joint venture at 31 December 2017 are set out in Note 43 to the financial statements.

Major Customers and Suppliers

During 2017 and 2016, the Group, comprising the Continuing Operations and the Discontinued Operations, purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the largest customer and the five largest customers combined for the Group were 13% (2016: 13%) and 36% (2016: 35%), respectively.

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

Save as disclosed above, during 2017, none of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers.

Connected Transactions and Continuing Connected Transactions

During the year, the Group entered into the following new connected transactions.

- (i) On 14 December 2017, the Company entered into a sale and purchase Agreement with True Sage Limited, an entity incorporated in the British Virgin Islands which will be owned by United Strength Element Limited, ("USEL") (an investment holding company wholly-owned by Hony Capital, an independent third party), FH (1937) (a substantial shareholder of the Company) and Fung Investments Limited, to divest the three Product Verticals under the Products segment for a total cash consideration of US\$1,100 million on a cash free/debt free basis, subject to closing adjustment. FH (1937) is a substantial shareholder of the Company and FH (1937) and members of the FH (1937) Group are connected persons of the Company. Accordingly, the strategic divestment of the three Product Verticals constitutes a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A of the Listing Rules. The strategic divestment was approved by the Company's Independent Shareholders on 31 January 2018. The strategic divestment is targeted to close during first half of 2018, subject to regulatory approval.

The three Product Verticals after the strategic divestment will be connected parties of the Company. On or before the closing date of the strategic divestment, the Company will enter into the following continuing connected transactions to deal with ongoing transactions after closing between the Group and the divested Product Verticals:

- **Services Agreement:** The services agreement allows the three Product Verticals to continue to be supplied with certain office administrative services that it currently receives from the Group for a term commencing on the closing of the strategic divestment and ending on 31 December 2019 with annual cap for 2018 and 2019 of US\$35 million and US\$45 million, respectively. The three Product Verticals have been receiving certain IT, human resources, finance and accounting, corporate services and global transaction services and will continue to receive such services for certain members of the three Product Verticals.
- **Master Property Agreement:** The master property agreement allows members of the three Product Verticals and members of the Group to sub-lease and license office, showroom and warehouse premises to and from one another, where the underlying leases have been entered into by the other party, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020 with annual cap for 2018, 2019 and 2020 of US\$15 million, US\$20 million and US\$25 million, respectively. The Group has been occupying certain properties that are leased by the three Product Verticals for use as office premises, showrooms and warehouses and will continue such occupancy in the form of sub-leases and licenses in accordance with the asset light strategy of the Group.
- **Ancillary Sourcing, Logistics and Trading Services Agreement:** The ancillary sourcing, logistics and trading services agreement allows: (i) the Group to continue to provide sourcing services to the three Product Verticals; (ii) the Group to provide logistics services to the three Product Verticals; and (iii) the three Product Verticals to provide trading services to the Group, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020, with annual cap for 2018, 2019 and 2020 of US\$40 million, US\$45 million and US\$50 million, respectively.

These continuing connected transactions will be subject to reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement.

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

- (i) The Company entered into a distribution and sale of goods agreement with FH (1937) and its associates on 5 December 2014 for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the distribution and sale of goods agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US\$15,837,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US\$200 million.
- (ii) The Company entered into the master lease agreement (the "Master Lease Agreement") on 14 November 2016 for the properties leasing or sub-leasing and/or licensing arrangements by the Group from/to FH (1937) and its associates for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. The transactions contemplated under the Master Lease Agreement for the leasing of properties constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the aggregate operating lease rental and license fee paid to and from one another approximated to US\$25,807,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US\$70 million.
- (iii) On 24 June 2014, a subsidiary of the Company entered into a buying agency agreement with a subsidiary of Global Brands, an associate of FH (1937), for the sourcing and supply chain management services for a term of three years from the listing date of Global Brands (the "Old Buying Agency Agreement"). In view of the expiry of the Old Buying Agency Agreement, the Company 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. Global Brands Group is a connected person of the Company after its spin-off from the Group on 8 July 2014 and the transactions contemplated under the Old Buying Agency Agreement and the Amended and Restated Buying Agency Agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. For the year ended 31 December 2017, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US\$1,328,648,000. The aggregate commission payable to the Group under the Old Buying Agency Agreement and the Amended and Restated Buying Agency Agreement did not exceed the annual cap for 2017 of US\$160 million and the cap on commission rate of 7% on the FOB price for all products and components sourced through the Group.
- (iv) On 20 August 2015, the Company entered into a master agreement with FH (1937) for provision of logistics related services to FH (1937) and its associates for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded logistics related services income of US\$16,598,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of US\$40 million.
- (v) On 7 June 2017, the Company entered into a master agreement with Trinity for the provision of sourcing and supply chain management services to Trinity and its associates for a term commencing on 1 June 2017 and ending on 31 December 2019. The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. The commission received for the sourcing and supply chain management services to Trinity was US\$5,219,000 for the year ended 31 December 2017 which did not exceed the annual cap for 2017 of HK\$43 million (equivalent to approximately US\$5.5 million).

Non-exempt continuing connected transactions of the Company for the year ended 31 December 2017 have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid non-exempt continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Proper internal control procedures are in place to identify, approve and record all these transactions.

The Company's auditor was engaged to report on the Group's continuing connected transactions for the year ended 31 December 2017 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with the Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Pension Scheme Arrangements

With effect from 1 December 2000, the mandatory provident fund (the "MPF Scheme") was set up by the Mandatory Provident Fund Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme and administered by independent trustees. Both the employer and the employees have to contribute an amount equal to 5% of the relevant income of such employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme and subject to certain conditions being met, all benefits derived from the mandatory contributions must be preserved until the employee either reaches the normal retirement age of 65 or meets certain specified conditions whichever is earlier.

In Taiwan, the Group operates a defined contribution provident scheme for its employees with the contributions set at 6% of the employees' basic salaries. In addition, the Group also participates in a retirement benefit plan in accordance with local statutory requirements. Under this plan, the Group's monthly pension cost contribution is 3% of employees' salaries, which is contributed monthly to an independent fund.

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee's monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.

In Indonesia and Thailand, the Group participates in a defined contribution provident scheme for its employees with the contribution set at 3.7% and 5% of the employees' basic salaries, respectively. In addition, the Group also participates in a defined benefit retirement scheme in accordance with local statutory requirements.

In China, the Group participates in defined contribution retirement schemes operated by the local authorities for employees. Contributions to these schemes are pursuant to the statutory requirements.

The provident fund schemes for staff of the Group in other regions follow local requirements.

Contributions to the various arrangements of 2017 were:

| | US\$'000 |
|--|----------|
| Contributions to the MPF Scheme | 1,534 |
| Contributions forfeited by employees | (62) |
| Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan | 2,206 |
| Contributions pursuant to the statutory requirements in Korea | 1,271 |
| Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand | 2,553 |
| Contributions pursuant to statutory requirements in China | 39,698 |
| Contributions pursuant to local requirements in other overseas regions | 14,975 |
| | 62,175 |

Directors

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

Non-executive Directors:

Victor Fung Kwok King (Honorary Chairman)
Paul Edward Selway-Swift* (retired on 1 June 2017)
Allan Wong Chi Yun*
Martin Tang Yue Nien*
Margaret Leung Ko May Yee*
Chih Tin Cheung* (appointed on 14 July 2017)
John G. Rice* (appointed on 10 January 2018)

Executive Directors:

William Fung Kwok Lun (Group Chairman)
Spencer Theodore Fung (Group Chief Executive Officer)
Marc Robert Compagnon
Joseph C. Phi (appointed on 10 January 2018)

* Independent Non-executive Directors

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

Spencer Theodore Fung, Allan Wong Chi Yun and Margaret Leung Ko May Yee will retire by rotation at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election.

In accordance with bye-law 101 of the Company's bye-laws, Chih Tin Cheung, John G. Rice and Joseph C. Phi who were appointed by the Directors during the year and up to the date of this Report, will retire and, being eligible, offer themselves for re-election.

The Board has received from each Independent Non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee, therefore, is of the view that they meet the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that each Independent Non-executive Director is independent to the Company.

The biographical details of the Directors as at the date of this Report are set out in "Our Board and Management Team" section on pages 72 to 85.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year. The Company has maintained liability insurance to provide appropriate cover for the directors of the Company and its subsidiaries.

Directors' Service Contracts

Under a service contract dated 2 June 1992 between the Company and William Fung Kwok Lun and a service contract dated 2 June 1992 between Li & Fung (B.V.I.) Limited and William Fung Kwok Lun, William Fung Kwok Lun has been appointed to act as Managing Director of the Company, Li & Fung (Trading) Limited, LF Properties Limited and Li & Fung (B.V.I.) Limited, in each case for an initial period of five years from 1 April 1992 and thereafter unless terminated by not less than 12 calendar months' notice in writing expiring at the end of such initial period or any subsequent month.

Apart from the above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation other than statutory compensation.

Directors' Material Interests in Transactions, Arrangements and Contracts

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year save as disclosed under the "Connected Transactions and Continuing Connected Transactions" section stated above and Note 35 "Related Party Transactions from Continuing Operations" to the financial statements.

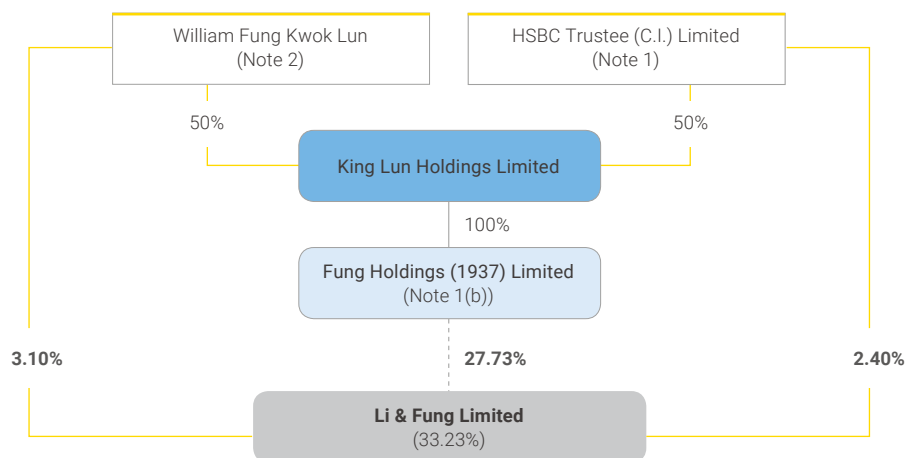
Directors' Interests

As at 31 December 2017, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

(A) Long Positions in Shares, Underlying Shares and Debentures of the Company

| Name of Director | Number of Shares | | | | Total | Percentage of Issued Share Capital ⁷ |
|-----------------------|-------------------|-------------------------|----------------------------------|------------------------------------|---------------|---|
| | Personal Interest | Family Interest | Trust/ Corporate Interest | Equity Derivatives (Share Options) | | |
| Victor Fung Kwok King | 2,814,444 | – | 2,551,966,180 ¹ | – | 2,554,780,624 | 30.16% |
| William Fung Kwok Lun | 177,120,260 | 108,800 ^{2(a)} | 2,426,505,472 ^{2(b)} | 7,509,000 ⁶ | 2,611,243,532 | 30.83% |
| Spencer Theodore Fung | 1,948,000 | – | 2,553,379,180 ^{1&3} | 10,569,000 ⁶ | 2,565,896,180 | 30.29% |
| Marc Robert Compagnon | 1,360,200 | 14,000 | 13,472,580 ⁴ | 9,945,000 ⁶ | 24,791,780 | 0.29% |
| Martin Tang Yue Nien | 60,000 | – | 60,000 ⁵ | – | 120,000 | 0.00% |

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



NOTES:

As at 31 December 2017,

- (1) Victor Fung Kwok King and Spencer Theodore Fung (son of Victor Fung Kwok King and as his family member) were each deemed to have interests in 2,551,966,180 Shares held in the following manner:
 - (a) 203,012,308 Shares were indirectly held by HSBC Trustee (C.I.) Limited through its wholly-owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King (the "Trust"); and
 - (b) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited, a wholly-owned subsidiary of King Lun Holdings Limited, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly-owned subsidiary, Fung Distribution International Limited. King Lun is a company owned 50% by HSBC Trustee as trustee of the Trust and 50% by William Fung Kwok Lun.
- (2) (a) Apart from 108,800 Shares, the spouse of William Fung Kwok Lun held US\$2,000,000 of the perpetual subordinated capital securities of the Company.
 - (b) 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above. 1,143,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above.
- (3) Out of 2,553,379,180 Shares, 1,413,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in Note (1) above.
- (4) Out of 13,472,580 Shares, 1,182,800 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in "Share Award Scheme" section stated above. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company beneficially owned by Marc Robert Compagnon.
- (5) 60,000 Shares were held by a trust of which Martin Tang Yue Nien is a beneficiary.
- (6) These interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners, the details of which are set out in the "Share Option Schemes" section stated above.
- (7) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 31 December 2017.

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

As at 31 December 2017, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Share Options and Awards Shares

The interests of the Directors and chief executives in the Share Options (being regarded as unlisted physically settled equity derivatives) and Awards Shares are detailed in the "Long-term Incentive Schemes" section stated above.

Save as disclosed above, at no time during the year did the Directors and chief executives (including their spouses and children under 18 years of age) have any interest in, or were granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) in the Company or its associated corporations, as required to be disclosed pursuant to the SFO.

Substantial Shareholders' Interests

As at 31 December 2017, other than the interests of the Directors or chief executives of the Company as disclosed in the previous section, the following entities had interests in the Shares of the Company which are required to be disclosed to the Company under Section 336 of the SFO:

| Name of Shareholder | Capacity | Number of Shares | Percentage of Issued Share Capital ³ |
|--|------------------------------------|----------------------------|---|
| Long Positions | | | |
| HSBC Trustee (C.I.) Limited | Trustee | 2,551,966,180 ¹ | 30.13% |
| King Lun Holdings Limited | Interest of controlled corporation | 2,348,953,872 ² | 27.73% |
| The Capital Group Companies, Inc. | Interest of controlled corporation | 674,166,000 | 7.96% |
| Commonwealth Bank of Australia | Interest of controlled corporation | 589,278,379 | 6.96% |
| BlackRock, Inc. | Interest of controlled corporation | 437,042,804 | 5.16% |
| Silchester International Investors LLP | Investment manager | 420,910,000 | 5.00% |
| Short Positions | | | |
| BlackRock, Inc. | Interest of controlled corporation | 13,840,000 | 0.16% |

NOTES:

As at 31 December 2017,

- (1) Please refer to Note (1) under the "Directors' Interests" section stated above.
- (2) 2,195,727,908 Shares were directly held by FH (1937) which also through its wholly-owned subsidiary, Fung Distribution, indirectly held 153,225,964 Shares. FH (1937) is a wholly-owned subsidiary of King Lun. Both Victor Fung Kwok King and William Fung Kwok Lun are directors of King Lun, FH (1937) and Fung Distribution.
- (3) The approximate percentages were calculated based on 8,469,956,406 Shares in issue as at 31 December 2017.

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2017.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this Report, there is sufficient public float of more than 25% of the Company's issued Shares as required under the Listing Rules.

Senior Management

The biographical details of the senior management as at the date of this Report are set out in "Our Board and Management Team" section on pages 72 to 85.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Corporate Governance

Principal corporate governance practices as adopted by the Company are set out in the "Our Commitment to Good Governance" section on pages 44 to 61.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
William Fung Kwok Lun
Group Chairman

Hong Kong, 22 March 2018