

Financial statements

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Consolidated profit and loss account

For the year ended 31 December 2016

	Note	2016 US\$'000	2015 US\$'000
Turnover	3	16,760,632	18,830,835
Cost of sales		(14,820,801)	(16,671,655)
Gross profit		1,939,831	2,159,180
Other income		22,153	29,645
Total margin		1,961,984	2,188,825
Selling and distribution expenses		(590,993)	(633,653)
Merchandising and administrative expenses		(958,993)	(1,042,748)
Core operating profit	3	411,998	512,424
Gain on remeasurement of contingent consideration payable	4	–	116,973
Amortization of other intangible assets	4	(33,801)	(34,412)
Gain on disposal of business	4&30(c)	7,871	–
One-off reorganization costs	4	(5,863)	–
Operating profit	4	380,205	594,985
Interest income		16,324	9,761
Interest expenses	5		
Non-cash interest expenses		(3,971)	(6,662)
Cash interest expenses		(87,525)	(92,879)
		(91,496)	(99,541)
Share of profits less losses of associated companies and joint venture	14&15	1,748	1,570
Profit before taxation		306,781	506,775
Taxation	6	(48,521)	(57,890)
Net profit for the year		258,260	448,885
Attributable to:			
Shareholders of the Company		223,146	421,046
Holders of perpetual capital securities		35,687	30,000
Non-controlling interests		(573)	(2,161)
		258,260	448,885
Earnings per share for profit attributable to the Shareholders of the Company during the year	7		
– Basic (equivalent to)		20.7 HK cents 2.67 US cents	39.1 HK cents 5.04 US cents
– Diluted (equivalent to)		20.6 HK cents 2.65 US cents	39.0 HK cents 5.02 US cents

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 US\$'000	2015 US\$'000
Net Profit for the Year	258,260	448,885
Other Comprehensive Expense:		
<i>Item that will not be reclassified to profit or loss</i>		
Remeasurement from post-employment benefits recognized in reserve, net of tax	(2,991)	(63)
Total Item that will not be Reclassified to Profit or Loss	(2,991)	(63)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences*	(138,906)	(83,932)
Net fair value gains/(losses) on cash flow hedges, net of tax	4,373	(6,077)
Net fair value gains on available-for-sale financial assets, net of tax	310	126
Total Items that may be Reclassified Subsequently to Profit or Loss	(134,223)	(89,883)
Total Other Comprehensive Expense for the Year, Net of Tax	(137,214)	(89,946)
Total Comprehensive Income for the Year	121,046	358,939
Attributable To:		
Shareholders of the Company	86,480	332,415
Holders of perpetual capital securities	35,687	30,000
Non-controlling interests	(1,121)	(3,476)
Total Comprehensive Income for the Year	121,046	358,939

* Exchange differences resulting from translation of the results and financial positions of the Group entities with functional currencies other than the Group's presentation currency.

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2016

		As at 31 December	
	Note	2016 US\$'000	2015 US\$'000
Non-current Assets			
Intangible assets	11	3,896,973	4,266,863
Property, plant and equipment	12	221,550	241,626
Prepaid premium for land leases	13	127	1,942
Associated companies	14	11,005	10,070
Joint venture	15	760	313
Available-for-sale financial assets	16	4,164	3,854
Other receivables, prepayments and deposits	20	27,458	26,217
Deferred tax assets	29	16,419	36,527
		4,178,456	4,587,412
Current Assets			
Inventories	17	277,841	566,002
Due from related companies	18	487,033	486,939
Trade and bills receivable	20	1,547,208	1,689,413
Other receivables, prepayments and deposits	20	206,610	256,818
Derivative financial instruments	19	10,697	4,272
Cash and bank balances	21	985,039	342,243
		3,514,428	3,345,687
Current Liabilities			
Due to related companies	18	2,093	1,038
Trade and bills payable	22	2,083,875	2,464,785
Accrued charges and sundry payables	22	517,234	601,129
Purchase consideration payable for acquisitions	27	67,794	86,266
Taxation		55,711	56,463
Bank advances for discounted bills	20	22,773	33,681
Short-term bank loans	23	29,180	95,819
Current portion of long-term notes	27	499,819	—
		3,278,479	3,339,181
Net Current Assets		235,949	6,506
Total Assets Less Current Liabilities		4,414,405	4,593,918

Consolidated balance sheet (continued)
As at 31 December 2016

		As at 31 December	
		2016	2015
	<i>Note</i>	US\$'000	US\$'000
Financed by:			
Share capital	24	13,487	13,487
Reserves		2,312,057	2,489,386
Shareholders' funds attributable to the Company's Shareholders		2,325,544	2,502,873
Holders of perpetual capital securities	26	1,158,687	503,000
Non-controlling interests		(1,083)	4,293
Total Equity		3,483,148	3,010,166
Non-current Liabilities			
Long-term notes	27	753,458	1,253,823
Purchase consideration payable for acquisitions	27	93,742	156,236
Other long-term liabilities	27	32,589	116,420
Post-employment benefit obligations	28	22,517	21,909
Deferred tax liabilities	29	28,951	35,364
		931,257	1,583,752
		4,414,405	4,593,918

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Attributable to Shareholders of the Company					Holder of	Non-	Total
	Share Capital US\$'000 (Note 24)	Share Premium US\$'000	Other Reserves US\$'000 (Note 25)	Retained Earnings US\$'000	Total US\$'000	Perpetual Capital Securities US\$'000 (Note 26)	controlling Interests US\$'000	
Balance at 1 January 2016	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166
Comprehensive Income/(Expense)								
Profit or loss	-	-	-	223,146	223,146	35,687	(573)	258,260
Other Comprehensive (Expense)/ Income								
Currency translation differences	-	-	(138,358)	-	(138,358)	-	(548)	(138,906)
Net fair value gains on available-for-sale financial assets, net of tax	-	-	310	-	310	-	-	310
Net fair value gains on cash flow hedges, net of tax	-	-	4,373	-	4,373	-	-	4,373
Remeasurement from post-employment benefits recognized in reserve, net of tax	-	-	(2,991)	-	(2,991)	-	-	(2,991)
Total other comprehensive expense, net of tax	-	-	(136,666)	-	(136,666)	-	(548)	(137,214)
Total Comprehensive (Expense)/ Income	-	-	(136,666)	223,146	86,480	35,687	(1,121)	121,046
Transactions with Owners in their Capacity as Owners								
Purchase of shares for Share Award Scheme	-	-	(12)	-	(12)	-	-	(12)
Employee Share Option and Share Award Scheme:								
– value of employee services	-	-	22,664	-	22,664	-	-	22,664
– vesting of shares for Share Award Scheme	-	9,918	(9,918)	-	-	-	-	-
Issuance of perpetual capital securities	-	-	-	-	-	650,000	-	650,000
Transaction costs related to issuance of perpetual capital securities	-	-	-	(4,500)	(4,500)	-	-	(4,500)
Distribution to holders of perpetual capital securities	-	-	-	-	-	(30,000)	-	(30,000)
Transfer to capital reserve	-	-	479	(479)	-	-	-	-
2015 final dividend paid	-	-	-	(162,670)	(162,670)	-	-	(162,670)
2016 interim dividend paid	-	-	-	(119,291)	(119,291)	-	-	(119,291)
Disposal of business	-	-	-	-	-	-	(4,255)	(4,255)
Total Transactions with Owners in their Capacity as Owners	-	9,918	13,213	(286,940)	(263,809)	620,000	(4,255)	351,936
Balance at 31 December 2016	13,487	714,536	431,450	1,166,071	2,325,544	1,158,687	(1,083)	3,483,148

Consolidated statement of changes in equity (continued)
For the year ended 31 December 2016

	Attributable to Shareholders of the Company					Holder of	Non-	Total
	Share Capital US\$'000 (Note 24)	Share Premium US\$'000	Other Reserves US\$'000 (Note 25)	Retained Earnings US\$'000	Total US\$'000	Perpetual Capital Securities US\$'000 (Note 26)	controlling Interests US\$'000	
Balance at 1 January 2015	13,398	699,476	634,098	1,251,512	2,598,484	503,000	8,594	3,110,078
Comprehensive Income/(Expense)								
Profit or loss	–	–	–	421,046	421,046	30,000	(2,161)	448,885
Other Comprehensive (Expense)/ Income								
Currency translation differences	–	–	(82,617)	–	(82,617)	–	(1,315)	(83,932)
Net fair value gains on available-for-sale financial assets, net of tax	–	–	126	–	126	–	–	126
Net fair value losses on cash flow hedges, net of tax	–	–	(6,077)	–	(6,077)	–	–	(6,077)
Remeasurement from post-employment benefits recognized in reserve, net of tax	–	–	(63)	–	(63)	–	–	(63)
Total other comprehensive expense, net of tax	–	–	(88,631)	–	(88,631)	–	(1,315)	(89,946)
Total Comprehensive (Expense)/ Income	–	–	(88,631)	421,046	332,415	30,000	(3,476)	358,939
Transactions with Owners in their Capacity as Owners								
Issue of shares for Share Award Scheme	89	–	(89)	–	–	–	–	–
Purchase of shares for Share Award Scheme	–	–	(7,300)	–	(7,300)	–	–	(7,300)
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	23,583	–	23,583	–	–	23,583
– vesting of shares for Share Award Scheme	–	5,142	(5,142)	–	–	–	–	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(30,000)	–	(30,000)
Transfer from capital reserve	–	–	(1,616)	1,616	–	–	–	–
2014 final and special dividend paid	–	–	–	(303,388)	(303,388)	–	(825)	(304,213)
2015 interim dividend paid	–	–	–	(140,921)	(140,921)	–	–	(140,921)
Total Transactions with Owners in their Capacity as Owners	89	5,142	9,436	(442,693)	(428,026)	(30,000)	(825)	(458,851)
Balance at 31 December 2015	13,487	704,618	554,903	1,229,865	2,502,873	503,000	4,293	3,010,166

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2016

	Note	2016 US\$'000	2015 US\$'000
Operating Activities			
Net cash inflow generated from operations	30(a)	439,258	608,764
Hong Kong profits tax paid, net of refund		(6,748)	(19,040)
Overseas taxation paid		(42,917)	(45,796)
Net Cash Inflow from Operating Activities		389,593	543,928
Investing Activities			
Purchases of property, plant and equipment		(59,239)	(78,090)
Payments for system development, software, license and other intangible assets		(8,640)	(5,299)
Settlement of consideration payable for prior years acquisitions of businesses		(87,271)	(102,268)
Disposal of business		316,196	–
Proceeds from disposal of property, plant and equipment		4,879	4,560
Interest income		16,324	9,761
Dividends received from associated companies	14	835	1,436
Investing in a joint venture	15	(612)	(313)
Other investing activities		(1,494)	1,379
Net Cash Inflow/(Outflow) from Investing Activities		180,978	(168,834)
Net Cash Inflow Before Financing Activities		570,571	375,094
Financing Activities			
Interest paid		(87,525)	(92,879)
Net proceeds from issuance of perpetual capital securities, net of transaction cost		645,500	–
Distributions made to holders of perpetual capital securities		(30,000)	(30,000)
Dividends paid		(281,961)	(445,134)
Purchase of shares for Share Award Scheme		(12)	(7,300)
Net (repayment)/drawdown of bank loans	30(b)	(166,639)	15,969
Net Cash Inflow/(Outflow) from Financing Activities		79,363	(559,344)
Increase/(Decrease) in Cash and Cash Equivalents		649,934	(184,250)
Cash and cash equivalents at 1 January		342,243	538,529
Effect of foreign exchange rate changes		(7,138)	(12,036)
Cash and Cash Equivalents at 31 December		985,039	342,243
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	21	985,039	342,243

The notes on pages 154 to 235 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 Basis of Preparation and Principal Accounting Policies

The basis of preparation and principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of Preparation

The consolidated financial statements of Li & Fung Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments and contingent consideration payable) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in *Note 2*.

(A) NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP

The following new standards and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2016:

HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 Amendment	Agriculture: Bearer Plants
HKAS 27 Amendment	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

The application of the above revised HKFRSs in the current year has had no material effect on the Group's reported financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(B) NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods, but the Group has not early adopted them:

HKAS 7 Amendment	Disclosure Initiative ¹
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses ¹
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 9	Financial Instruments ²
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 15 Amendment	Clarifications to HKFRS 15 ²
HKFRS 16	Leases ³
Annual Improvement Project	Annual Improvements 2014-2016 Cycle ^{1,2}

NOTES:

1. Effective for annual periods beginning on or after 1 January 2017

2. Effective for annual periods beginning on or after 1 January 2018

3. Effective for annual periods beginning on or after 1 January 2019

4. Effective date to be determined

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(B) NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP (continued)

HKFRS 9, 'Financial instruments' (continued)

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(B) NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP (continued)

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of US\$426,633,000, see *note 32*. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group is in the process of making an assessment of the impact of these new standards and amendments to existing standards upon initial application.

1.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2016.

(A) SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration for the acquisition of a subsidiary is the aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(A) SUBSIDIARIES (continued)

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

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

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

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(C) ASSOCIATED COMPANIES

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

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

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

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

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

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

(D) JOINT VENTURE

Under the equity method of accounting, interests in joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified for making strategic decisions.

1.4 Foreign Currency Translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

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

(B) TRANSACTIONS AND BALANCES

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

(C) GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation (continued)

(C) GROUP COMPANIES (continued)

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in equity.

1.5 Property, Plant and Equipment

(A) LAND AND BUILDINGS

Freehold land is stated at cost less impairment.

Buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(B) OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment, comprising leasehold improvements, furniture, fixtures and equipment, plant and machinery, motor vehicles and company boat, are stated at cost less accumulated depreciation and accumulated impairment losses.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.5 Property, Plant and Equipment (continued)

(C) DEPRECIATION AND IMPAIRMENT

Freehold land is not depreciated. Other classes of property, plant and equipment are depreciated at rates sufficient to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives on a straight-line basis.

The principal annual rates are as follows:

Leasehold land	shorter of lease term or useful life
Buildings and leasehold improvements	2% – 20%
Furniture, fixtures and equipment	6 ² / ₃ % – 33 ¹ / ₃ %
Plant and machinery	10% – 15%
Motor vehicles and company boat	15% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (*Note 1.7*). Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

(D) GAIN OR LOSS ON DISPOSAL

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant item, and is recognized in the consolidated profit and loss account.

1.6 Intangible Assets

(A) GOODWILL

Goodwill represents the excess of the considerations transferred over the net fair value of the Group's share of the net identifiable assets/liabilities and contingent liabilities of the acquired business/associated company/joint venture at the date of acquisition (*Note 1.2(a)*). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint venture is included in interests in associated companies and joint venture and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Each unit or groups of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purpose.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.6 Intangible Assets (continued)

(B) SYSTEM DEVELOPMENT, SOFTWARE AND OTHER LICENSE COSTS

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful lives of 3 to 10 years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

System development costs recognized as assets are amortized over their estimated useful lives of 3 to 10 years.

Brand licenses are license contracts entered into with the brandholders by the Group in the capacity as licensee. Brand licenses are capitalized based on the upfront costs incurred and the present value of guaranteed royalty payments to be made subsequent to the inception of the license contracts. Brand licenses are amortized based on expected usage from the date of first commercial usage over the remaining licence periods ranging from approximately 1 to 10 years.

(C) OTHER INTANGIBLE ASSETS

Intangible assets, other than goodwill, identified on business combinations are capitalized at their fair values. They represent mainly trademarks, buying agency agreements secured, and relationships with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 5 to 20 years.

1.7 Impairment of Investments in Subsidiaries, Associated Companies, Joint Venture and Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or joint venture is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets

CLASSIFICATION

The Group classifies its financial assets as either loans and receivables or available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(A) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivable", "other receivables, prepayments and deposits", "cash and bank balances" and "amounts due from related companies" in the balance sheet (*Notes 1.11 and 1.13*).

(B) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

RECOGNITION AND MEASUREMENT

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in consolidated profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair values of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated profit and loss account as net investment loss.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated profit and loss account as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated profit and loss account as part of other income when the Group's right to receive payments is established.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.9 Impairment of Financial Assets

(A) ASSETS CLASSIFIED AS LOANS AND RECEIVABLES CARRIED AT AMORTIZED COST

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.9 Impairment of Financial Assets (continued)

(B) ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (A) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated profit and loss account.

1.10 Inventories

Inventories comprise raw materials and finished goods and are stated at the lower of cost and net realizable value. Cost, calculated on a first-in, first-out (FIFO) basis, comprises purchase prices of inventories and direct costs (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

1.11 Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated profit and loss account within selling expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling expenses in the consolidated profit and loss account.

1.12 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.13 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

1.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.15 Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.16 Employee Benefits

(A) EMPLOYEE LEAVE ENTITLEMENTS

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave entitlements as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(B) DISCRETIONARY BONUS

The expected costs of discretionary bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(C) POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee-administrated funds. The defined benefit pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in the consolidated profit and loss account.

The Group's net obligation in respect of long-service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.16 Employee Benefits (continued)

(D) SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the Share Options/Award Shares is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options/share awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of Share Options/Award shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of Share Options/Award Shares that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to employee share-based compensation reserve.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(E) SHARE-BASED PAYMENT TRANSACTIONS AMONG GROUP ENTITIES

The grant by the Company of Share Options/Award Shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity's financial statements.

1.17 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.18 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

1.19 Total Margin

Total margin includes gross profit and other recurring income relating to the trading and logistics businesses.

1.20 Core Operating Profit

Core operating profit is the profit before taxation generated from the Group's trading and logistics businesses excluding share of results of associated companies and joint venture, interest income, interest expenses, taxation, material gains or losses which are of capital nature or non-operational related, acquisition related cost. This also excludes gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.21 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Service income is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate.

Dividend income is recognized when the right to receive payment is established.

Other income incidental to normal operating activities is recognized when the services are rendered or the right to receive payment is established.

1.22 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

1.23 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease. The upfront prepayments made for leasehold land and land use rights are amortized on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.24 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the fair values of hedging derivatives are included within shareholders' equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(A) CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in equity are recycled to the consolidated profit and loss account in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in the consolidated profit and loss account within sales. The gain or loss relating to the ineffective portion is recognized in the consolidated profit and loss account within other gains/(losses) – net. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory, or in depreciation in case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated profit and loss account.

(B) DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives financial instruments recognized at fair value through profit or loss include certain derivative instruments that do not qualify for hedge accounting which is initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair values of derivative financial instruments are recognized immediately in the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.25 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.26 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.27 Treasury Shares

In relation to certain business combinations and Share Award Scheme, the Company may issue or purchase shares to escrow agents for the settlement of acquisition consideration payables and to the trustee of Share Award Scheme. The shares, valued at the agreed upon issue price or purchase price, including any directly attributable incremental costs, are presented as "treasury shares" and deducted from total equity. The number of shares held by escrow agent for settlement of acquisition consideration and by the trustee of Share Award Scheme would be eliminated against the corresponding amount of share capital issued in the calculation of the earnings per share for profit attributable to the shareholders of the Company.

1.28 Financial Guarantee Contract

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The Company's liabilities under such guarantees are subsequently measured at the higher of the initial amount, less amortization of fees recognized in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on the experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated profit and loss account within administrative expenses.

2 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(A) Estimated Impairment of Intangible Assets including Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in *Note 1.6*. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (*Note 11*).

2 Critical Accounting Estimates and Judgments (continued)

(B) Useful Lives of Intangible Assets

The Group amortizes its intangible assets with finite useful lives on a straight-line basis over their estimated useful lives. The estimated useful lives reflect the management's estimates of the periods that the Group intends to derive future economic benefits from the use of these intangible assets.

(C) Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(D) Contingent Considerations of Acquisitions

Certain of the Group's business acquisitions have involved post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group follows the requirement of HKFRS 3 (Revised) to recognize the fair value of those contingent considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses/subsidiaries. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/business and significant judgment on time value of money. Contingent considerations shall be remeasured at their fair value resulting from events or factors emerging after the acquisition date, with any resulting gain or loss recognized in the consolidated profit and loss account in accordance with HKFRS 3 (Revised).

The basis of the contingent consideration differs for each acquisition; generally, however the contingent consideration reflects a specified multiple of the post-acquisition financial profitability of the acquired business. Consequently, the actual additional consideration payable may vary according to the future performance of each individual acquired business, and the liabilities provided reflect estimates of such future performances.

Due to the number of acquisitions for which additional consideration remains outstanding and the variety of bases of determination, it is not practicable to provide any meaningful sensitivity in relation to the critical assumptions concerning future profitability of each acquired business and the potential impact on the gain or loss on remeasurement of contingent consideration payables and goodwill for each acquired business.

However, if the total actual contingent consideration payables are 10% lower or higher than the total contingent consideration payables estimated by management, the resulting aggregate impact to the gain or loss on remeasurement of contingent consideration payables for acquisitions would be US\$16 million.

3 Segment Information

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong. The Group is principally engaged in managing the supply chain for retailers and brands worldwide with more than 250 offices across 40 economies spanning across the Americas, Europe, Africa and Asia Pacific. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group's management (chief operating decision-maker) considers the business principally from the perspective of two global Networks, namely the Trading Network and the Logistics Network. The Trading Network focuses on provision of the global sourcing services via multiple channels, such as buying agent, trading-as-principal for private label merchandise and on-shore wholesale business. The Logistics Network focuses on provision of logistics solutions and freight forwarding services.

The Group's management assesses the performance of the operating segments based on a measure of operating profit, referred to as core operating profit (*see Note 1.20*). This measurement basis includes profit of the operating segments before share of results of associated companies and joint venture, interest income, interest expenses, taxation, material gains or losses, which are of capital nature or non – operational related, acquisition related cost. This also excludes any gain or loss on remeasurement of contingent consideration payable and amortization of other intangible assets which are non-cash items. Other information provided to the Group's management is measured in a manner consistent with that in the financial statements.

3 Segment Information (continued)

	Trading Network US\$'000	Logistics Network US\$'000	Elimination US\$'000	Total US\$'000
Year ended 31 December 2016				
Turnover	15,856,738	907,307	(3,413)	16,760,632
Total margin	1,650,347	311,637		1,961,984
Operating costs	(1,299,024)	(250,962)		(1,549,986)
Core operating profit	351,323	60,675		411,998
Amortization of other intangible assets				(33,801)
Gain on disposal of business				7,871
One-off reorganization costs				(5,863)
Operating profit				380,205
Interest income				16,324
Interest expenses				
Non-cash interest expenses				(3,971)
Cash interest expenses				(87,525)
				(91,496)
Share of profits less losses of associated companies and joint venture				1,748
Profit before taxation				306,781
Taxation				(48,521)
Net profit for the year				258,260
Depreciation and amortization	83,935	19,359		103,294
31 December 2016				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	3,471,172	686,701		4,157,873

3 Segment Information (continued)

	Trading Network US\$'000	Logistics Network US\$'000	Elimination US\$'000	Total US\$'000
Year ended 31 December 2015				
Turnover	17,906,577	932,170	(7,912)	18,830,835
Total margin	1,909,007	279,818		2,188,825
Operating costs	(1,449,132)	(227,269)		(1,676,401)
Core operating profit	459,875	52,549		512,424
Gain on remeasurement of contingent consideration payable				116,973
Amortization of other intangible assets				(34,412)
Operating profit				594,985
Interest income				9,761
Interest expenses				
Non-cash interest expenses				(6,662)
Cash interest expenses				(92,879)
				(99,541)
Share of profits less losses of associated companies				1,570
Profit before taxation				506,775
Taxation				(57,890)
Net profit for the year				448,885
Depreciation and amortization	95,452	15,123		110,575
31 December 2015				
Non-current assets (other than available-for-sale financial assets and deferred tax assets)	3,890,628	656,403		4,547,031

3 Segment Information (continued)

The geographical analysis of turnover and non-current assets (other than available-for-sale financial assets and deferred tax assets) is as follows:

	Turnover		Non-current Assets (Other Than Available-for-sale Financial Assets and Deferred Tax Assets) As at 31 December	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
United States of America	10,728,590	11,653,992	1,985,433	2,024,579
Europe	2,926,251	3,108,613	1,066,770	1,161,115
Asia	2,042,435	2,736,321	907,012	1,127,532
Rest of the world	1,063,356	1,331,909	198,658	233,805
	16,760,632	18,830,835	4,157,873	4,547,031

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

	2016 US\$'000	2015 US\$'000
Soft goods	10,272,316	11,069,902
Hard goods	5,583,818	6,823,509
Logistics	904,498	937,424
	16,760,632	18,830,835

For the year ended 31 December 2016, approximately 13% (2015: 13%) of the Group's total turnover is derived from a single external customer, which is wholly attributable to the Trading Network.

4 Operating Profit

Operating profit is stated after crediting and charging the following:

	2016 US\$'000	2015 US\$'000
Crediting		
Gain on remeasurement of contingent consideration payable (Note)*	–	116,973
Gain on disposal of business (Note 30(c))*	7,871	–
Charging		
Cost of inventories sold	14,820,801	16,671,655
One-off reorganization costs*	5,863	–
Amortization of system development, software and other license costs (Note 11)	11,517	14,538
Amortization of other intangible assets (Note 11)*	33,801	34,412
Amortization of prepaid premium for land leases (Note 13)	65	119
Depreciation of property, plant and equipment (Note 12)	57,911	61,506
Loss on disposal of property, plant and equipment, net	789	1,679
Operating leases rental in respect of land and building	164,595	155,871
Provision for impaired receivables (Note 20)	53,489	21,582
Staff costs including directors' emoluments (Note 9)	970,325	1,024,684
Net exchange (gains)/losses	(2,366)	5,082

* Excluded from the core operating profit

NOTE:

The Group remeasured contingent consideration payable for all acquisitions with outstanding contingent consideration arrangements based on the market outlook and their prevailing business plans and projections. There was no gain or loss from remeasurement of contingent consideration for 2016. In 2015, a gain of approximately US\$117 million was recognized. Among the total remeasurement gain, approximately US\$87 million was adjustment to earn-up consideration. The revised provision for performance-based contingent considerations is calculated based on discounted cash flows of future consideration payment with the revision of estimated future profit of these acquired businesses. These gains were recognized as a non-core operating gain on remeasurement of contingent consideration payable.

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

	2016 US\$'000	2015 US\$'000
Audit services	3,763	4,491
Non-audit services		
– due diligence reviews on acquisitions	57	–
– taxation services	2,605	2,630
– others	537	1,534
Total remuneration to auditors charged to consolidated profit and loss account	6,962	8,655

NOTE:

Of the above audit and non-audit services fees, US\$3,754,000 (2015: US\$4,417,000) and US\$3,199,000 (2015: US\$4,164,000), respectively are payable to the Company's auditor.

5 Interest Expenses

	2016 US\$'000	2015 US\$'000
Non-cash interest expenses on purchase consideration payable for acquisitions and long-term notes	3,971	6,662
Cash interest on bank loans and overdrafts, long-term notes	87,525	92,879
	91,496	99,541

6 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2016 US\$'000	2015 US\$'000
Current taxation		
– Hong Kong profits tax	8,669	9,204
– Overseas taxation	46,494	49,094
(Over)/under provision in prior years (Note)	(1,433)	2,968
Deferred taxation (Note 29)	(5,209)	(3,376)
	48,521	57,890

NOTE:

Under provision of taxation in 2015 included a recognition of prior year unrecognized deferred tax assets of US\$6,795,000.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2016 %	2015 %
Calculated at a taxation rate of	16.5	16.5
Effect of different taxation rates in other countries	(8.2)	(4.5)
Expenses net of income/(income net of expenses) not subject to taxation	7.7	(1.4)
(Over)/under provision in prior years	(0.5)	0.6
Utilization of previously unrecognized tax losses	(0.6)	(0.1)
Unrecognized tax losses	0.9	0.3
Effective tax rate	15.8	11.4

7 Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to Shareholders of US\$223,146,000 (2015: US\$421,046,000) and on the weighted average number of 8,354,893,000 (2015: 8,351,640,000) shares in issue during the year.

The diluted earnings per share was calculated by adjusting the weighted average number of 8,354,893,000 (2015: 8,351,640,000) ordinary shares in issue by 56,573,000 (2015: 38,460,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting of Award Shares.

8 Dividends

	2016 US\$'000	2015 US\$'000
Interim, paid, of HK\$0.11 (equivalent to US\$0.014) (2015: HK\$0.13 (equivalent to US\$0.017)) per ordinary share	119,291	140,921
Final, proposed, of HK\$0.12 (equivalent to US\$0.015) (2015: HK\$0.15 (equivalent to US\$0.019)) per ordinary share (Note)	130,136	162,670
	249,427	303,591

NOTE:

At a meeting held on 29 March 2017, the Directors proposed a final dividend of HK\$0.12 (equivalent to US\$0.015) per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2017.

9 Staff Costs including Directors' Emoluments

	2016 US\$'000	2015 US\$'000
Salaries and bonuses	841,232	894,635
Staff benefits	39,862	41,064
Pension costs of defined contribution plans (Note (a))	63,601	61,859
Employee share option and share award expenses	22,664	23,583
Pension costs of defined benefit plans (Note 28(ii))	2,161	2,549
Long-service payments	805	994
	970,325	1,024,684

NOTES:

(a) Forfeited contributions totalling US\$2,019,000 (2015: US\$1,745,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

(b) Staff costs of US\$668,601,000 (2015: US\$713,871,000), US\$152,604,000 (2015: US\$161,985,000) and US\$149,120,000 (2015: US\$148,828,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

10 Directors' and Senior Management's Emoluments

(a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2015: three) Directors whose accrued emoluments are reflected in the analysis shown in *Note 39*. The emoluments payable to the remaining two individuals on accrual basis (2015: two individuals) during the year are as follows:

	2016 US\$'000	2015 US\$'000
Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind	1,896	2,216
Discretionary bonuses	900	782
Contributions to pension scheme	4	13
	2,800	3,011

Emolument Bands	Number of individuals	
	2016	2015
US\$1,282,001 – US\$1,346,000 (HK\$10,000,001 – HK\$10,500,000)	–	1
US\$1,346,001 – US\$1,410,000 (HK\$10,500,001 – HK\$11,000,000)	1	–
US\$1,410,001 – US\$1,474,000 (HK\$11,000,001 – HK\$11,500,000)	1	–
US\$1,667,001 – US\$1,731,000 (HK\$13,000,001 – HK\$13,500,000)	–	1

There is no amount paid or payable to the directors as inducement to join the Group and compensation for loss of office as directors.

(b) Senior Management's Emoluments

The emoluments payable to the senior management during the year fell within the following bands:

Emolument Bands	Number of individuals	
	2016	2015
Below US\$1,000,000	3	2
US\$1,000,001 – US\$1,500,000	7	7
US\$1,500,001 – US\$2,000,000	–	1

11 Intangible Assets

	Other Intangible Assets						Total US\$'000
	Goodwill US\$'000	System Development, Software and Other License Costs US\$'000	Buying Agency Agreements US\$'000	Customer Relationships US\$'000	Patents, Trademarks and Brandnames US\$'000	Others US\$'000	
At 1 January 2016							
Cost	3,877,811	76,508	67,867	400,124	49,211	12,521	4,484,042
Accumulated amortization	-	(53,992)	(25,306)	(123,846)	(12,420)	(1,615)	(217,179)
Net Book Amount	3,877,811	22,516	42,561	276,278	36,791	10,906	4,266,863
Year ended 31 December 2016							
Opening net book amount	3,877,811	22,516	42,561	276,278	36,791	10,906	4,266,863
Exchange differences	(103,200)	(867)	-	(7,833)	(2,849)	-	(114,749)
Acquisition of business	5,829	-	-	890	-	-	6,719
Additions	-	13,214	-	-	-	-	13,214
Disposal of business	(223,200)	(457)	-	(5,641)	-	(458)	(229,756)
Disposals	-	-	-	-	-	-	-
Amortization	-	(11,517)	(3,875)	(26,043)	(3,099)	(784)	(45,318)
Closing Net Book Amount	3,557,240	22,889	38,686	237,651	30,843	9,664	3,896,973
At 31 December 2016							
Cost	3,557,240	73,949	67,867	381,183	45,305	12,063	4,137,607
Accumulated amortization	-	(51,060)	(29,181)	(143,532)	(14,462)	(2,399)	(240,634)
Net Book Amount	3,557,240	22,889	38,686	237,651	30,843	9,664	3,896,973

11 Intangible Assets (continued)

			Other Intangible Assets				
	Goodwill US\$'000	System Development, Software and Other License Costs US\$'000	Buying Agency Agreements US\$'000	Customer Relationships US\$'000	Patents, Trademarks and Brandnames US\$'000	Others US\$'000	Total US\$'000
At 1 January 2015							
Cost	3,910,770	86,858	67,867	403,327	50,641	12,583	4,532,046
Accumulated amortization	–	(53,019)	(21,431)	(98,154)	(9,224)	(1,135)	(182,963)
Net Book Amount	3,910,770	33,839	46,436	305,173	41,417	11,448	4,349,083
Year ended 31 December 2015							
Opening net book amount	3,910,770	33,839	46,436	305,173	41,417	11,448	4,349,083
Exchange differences	(33,518)	(1,813)	–	(2,281)	(1,179)	89	(38,702)
Adjustments to purchase consideration payable for acquisitions and net asset value (Note (i))	559	–	–	–	–	(155)	404
Additions	–	7,103	–	–	–	–	7,103
Disposals	–	(2,075)	–	–	–	–	(2,075)
Amortization	–	(14,538)	(3,875)	(26,614)	(3,447)	(476)	(48,950)
Closing Net Book Amount	3,877,811	22,516	42,561	276,278	36,791	10,906	4,266,863
At 31 December 2015							
Cost	3,877,811	76,508	67,867	400,124	49,211	12,521	4,484,042
Accumulated amortization	–	(53,992)	(25,306)	(123,846)	(12,420)	(1,615)	(217,179)
Net Book Amount	3,877,811	22,516	42,561	276,278	36,791	10,906	4,266,863

NOTE:

(i) These were adjustments to purchase consideration payable for acquisitions and net asset values related to certain acquisitions of businesses in 2015, which were previously determined on a provisional basis. During the measurement period of twelve months following a transaction, the Group recognized adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. The corresponding adjustments to goodwill and other intangible assets stated above were adjusting other assets/liabilities of the same amount for the year ended 31 December 2015.

Amortization of system development, software and other license costs of US\$5,461,000 (2015: US\$5,273,000) and US\$6,056,000 (2015: US\$9,265,000) have been expensed in merchandising and administrative expenses and selling and distribution expenses respectively.

11 Intangible Assets (continued)

Impairment Test for Goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to operating segment.

A summary of goodwill by reporting segment is presented below.

	As at 31 December	
	2016 US\$'000	2015 US\$'000
Trading network	2,995,417	3,321,708
Logistics network	561,823	556,103
	3,557,240	3,877,811

In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. Goodwill impairment reviews have been performed at the lowest level of CGU which generates cash flow independently. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on a one-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 5%. The discount rate used of approximately 11% is pre-tax and reflects specific risks related to the relevant segments. The budgeted gross margin and net profit margin are determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

12 Property, Plant and Equipment

	Land and Buildings US\$'000	Leasehold Improvements US\$'000	Furniture, Fixtures and Equipment US\$'000	Plant and Machinery US\$'000	Motor Vehicles and Company Boat US\$'000	Total US\$'000
At 1 January 2016						
Cost	14,801	197,765	186,443	132,573	7,508	539,090
Accumulated depreciation	(1,134)	(132,204)	(118,421)	(44,402)	(1,303)	(297,464)
Net Book Amount	13,667	65,561	68,022	88,171	6,205	241,626
Year ended 31 December 2016						
Opening net book amount	13,667	65,561	68,022	88,171	6,205	241,626
Exchange differences	(1,111)	(3,317)	(2,193)	(4,706)	(33)	(11,360)
Acquisition of business	–	322	75	–	1	398
Additions	189	12,898	27,516	40,602	515	81,720
Disposal of business	(2,674)	(3,436)	(2,011)	(17,911)	(1,223)	(27,255)
Disposals	(3,020)	(1,168)	(481)	(838)	(161)	(5,668)
Depreciation	(394)	(18,590)	(23,082)	(14,341)	(1,504)	(57,911)
Closing Net Book Amount	6,657	52,270	67,846	90,977	3,800	221,550
At 31 December 2016						
Cost	7,613	192,025	187,292	138,287	4,917	530,134
Accumulated depreciation	(956)	(139,755)	(119,446)	(47,310)	(1,117)	(308,584)
Net Book Amount	6,657	52,270	67,846	90,977	3,800	221,550

12 Property, Plant and Equipment (continued)

	Land and Buildings US\$'000	Leasehold Improvements US\$'000	Furniture, Fixtures and Equipment US\$'000	Plant and Machinery US\$'000	Motor vehicles and Company Boat US\$'000	Total US\$'000
At 1 January 2015						
Cost	18,188	199,319	184,332	141,861	7,814	551,514
Accumulated depreciation	(2,424)	(131,732)	(120,951)	(49,158)	(2,342)	(306,607)
Net Book Amount	15,764	67,587	63,381	92,703	5,472	244,907
Year ended 31 December 2015						
Opening net book amount	15,764	67,587	63,381	92,703	5,472	244,907
Exchange differences	(1,425)	(1,951)	(3,025)	(7,075)	(150)	(13,626)
Additions	467	22,387	32,332	20,086	2,818	78,090
Disposals	(533)	(2,020)	(1,833)	(1,545)	(308)	(6,239)
Depreciation	(606)	(20,442)	(22,833)	(15,998)	(1,627)	(61,506)
Closing Net Book Amount	13,667	65,561	68,022	88,171	6,205	241,626
At 31 December 2015						
Cost	14,801	197,765	186,443	132,573	7,508	539,090
Accumulated depreciation	(1,134)	(132,204)	(118,421)	(44,402)	(1,303)	(297,464)
Net Book Amount	13,667	65,561	68,022	88,171	6,205	241,626

Depreciation of US\$32,536,000 (2015: US\$33,973,000), US\$19,635,000 (2015: US\$19,075,000) and US\$5,740,000 (2015: US\$8,458,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses and cost of sales respectively.

At 31 December 2016, the Group had no land and buildings pledged as security for bank borrowings (31 December 2015: US\$2,545,000) (Note 23).

13 Prepaid Premium for Land Leases

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

	2016 US\$'000	2015 US\$'000
Beginning of the year	1,942	2,498
Disposal of business	(1,853)	–
Amortization	(65)	(119)
Exchange differences	103	(437)
End of the year	127	1,942

Amortization of US\$65,000 (2015: US\$117,000) and US\$Nil (2015: US\$2,000) has been expensed in selling and distribution expenses and merchandising and administrative expenses respectively.

14 Associated Companies

	2016 US\$'000	2015 US\$'000
Beginning of the year	10,070	11,890
Share of profits less losses of associated companies	1,921	1,570
Dividend received	(835)	(1,436)
Disposals	–	(1,802)
Exchange differences	(151)	(152)
Total interests in associated companies	11,005	10,070

Details of principal associated companies are set out in *Note 41*.

15 Joint Venture

	2016 US\$'000	2015 US\$'000
Beginning of the year	313	–
Capital injection	612	313
Share of loss of joint venture	(173)	–
Exchange differences	8	–
Total interest in joint venture	760	313

Details of principal joint venture is set out in *Note 41*.

16 Available-for-sale Financial Assets

	2016 US\$'000	2015 US\$'000
Beginning of the year	3,854	3,709
Fair value gains on available-for-sale financial assets, net of tax (<i>Note 25</i>)	310	126
Exchange differences	–	19
End of the year	4,164	3,854

Available-for-sale financial assets include the following:

	2016 US\$'000	2015 US\$'000
Unlisted investments (<i>Note 37</i>)	4,164	3,854

Available-for-sale financial assets are denominated in HK dollar.

17 Inventories

	2016 US\$'000	2015 US\$'000
Finished goods	237,968	502,447
Raw materials	39,873	63,555
	277,841	566,002

18 Due from/(to) Related Companies

	2016 US\$'000	2015 US\$'000
Trade (Note (a))		
Due from:		
Associated companies	7,743	6,983
Other related companies	473,229	463,369
	480,972	470,352
Non-trade (Note (b))		
Due from:		
Associated companies	455	355
Other related companies	5,606	16,232
	6,061	16,587
	487,033	486,939
Due to:		
Other related companies	(2,093)	(1,038)

NOTES:

(a) As at 31 December 2016, trade balances due from related companies of US\$467,449,000 were current or less than 90 days past due. Amounts past due over 90 days were US\$13,523,000.

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

19 Derivative Financial Instruments

	2016 US\$'000	2015 US\$'000
Forward foreign exchange contracts		
– assets (Note 37)	10,697	4,272

Gain in equity of US\$7,185,000 (2015: US\$2,812,000) on forward foreign exchange contracts as of 31 December 2016 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date (Note 25).

For the years ended 31 December 2016 and 2015, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

20 Trade and Other Receivables

	2016 US\$'000	2015 US\$'000
Trade and bills receivable – net	1,547,208	1,689,413
Other receivables, prepayments and deposits	234,068	283,035
	1,781,276	1,972,448
Less: non-current portion other receivables, prepayments and deposits	(27,458)	(26,217)
	1,753,818	1,946,231

The fair values of the Group's trade and other receivables were approximately the same as their carrying values as at 31 December 2016.

A significant portion of the Group's business is on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The balance of the business is on open account terms which is often covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers. The ageing of trade and bills receivable based on invoice date is as follows:

	2016 US\$'000	2015 US\$'000
Current to 90 days	1,442,127	1,595,433
91 to 180 days	87,280	83,376
181 to 360 days	15,154	7,900
Over 360 days	2,647	2,704
	1,547,208	1,689,413

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers internationally dispersed.

20 Trade and Other Receivables (continued)

As of 31 December 2016, trade receivables of US\$1,529,486,000 (2015: US\$1,673,045,000) that were current or less than 90 days past due were not considered impaired. Trade receivables of US\$17,722,000 (2015: US\$16,368,000) were past due over 90 days but not considered to be impaired. These relate to a number of independent customers for whom there is no recent history of default. The past due ageing of these trade receivables is as follows:

	2016 US\$'000	2015 US\$'000
91 to 180 days	3,651	7,596
Over 180 days	14,071	8,772
	17,722	16,368

As of 31 December 2016, outstanding trade receivables of US\$56,599,000 (2015: US\$35,252,000) and other receivables of US\$17,452,000 (2015: US\$11,316,000) were considered impaired and were fully provided. The individually impaired receivables mainly related to certain customers under the Trading Network, which had filed for Chapter 11 bankruptcy.

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

	2016 US\$'000	2015 US\$'000
At 1 January	46,568	51,957
Provision for receivable impairment (Note 4)	54,963	23,918
Provision written off against receivables	(22,715)	(14,397)
Unused amounts reversed (Note 4)	(1,474)	(2,336)
Disposal of business/business distributed in specie	(3,400)	(12,225)
Exchange difference	109	(349)
At 31 December	74,051	46,568

The creation and release of provision for impaired receivables have been included in "Selling and distribution expenses" in the consolidated profit and loss account (Note 4). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Save as disclosed as above, the other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

Certain subsidiaries of the Group transferred bills receivable balances amounting to US\$22,773,000 (2015: US\$33,681,000) to banks in exchange for cash as at 31 December 2016. The transactions have been accounted for as collateralized bank advances.

20 Trade and Other Receivables (continued)

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

	2016 US\$'000	2015 US\$'000
US dollar	1,214,170	1,185,258
HK dollar	52,401	121,486
Euro	196,916	205,846
Pound sterling	82,235	75,001
Renminbi	85,802	143,031
Malaysia Ringgit	7,929	35,798
Thailand Baht	23,275	54,206
Others	91,090	125,605
	1,753,818	1,946,231

21 Cash and Cash Equivalents

	2016 US\$'000	2015 US\$'000
Cash and bank balances	985,039	342,243

The effective interest rate at the balance sheet date on bank balances was 0.8% (2015: 0.3%) per annum; these deposits have an average maturity period of 5 days (2015: 6 days).

22 Trade and Other Payables

	2016 US\$'000	2015 US\$'000
Trade and bills payable	2,083,875	2,464,785
Accrued charges and sundry payables	517,234	601,129
	2,601,109	3,065,914

The fair values of the Group's trade and other payables were approximately the same as their carrying values as at 31 December 2016.

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

	2016 US\$'000	2015 US\$'000
Current to 90 days	2,003,134	2,365,315
91 to 180 days	60,532	80,822
181 to 360 days	10,814	2,885
Over 360 days	9,395	15,763
	2,083,875	2,464,785

23 Bank Borrowings

	2016 US\$'000	2015 US\$'000
Long-term bank loans		
– Unsecured (<i>Note 27</i>)	–	100,000
Short-term bank loans		
– Secured	–	3,260
– Unsecured	29,180	92,559
	29,180	95,819
Total bank borrowings	29,180	195,819

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2016.

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

	2016				2015			
	USD	PHP	IDR	Others	USD	PHP	IDR	Others
Long-term bank loans	–	–	–	–	1.5%	–	–	–
Short-term bank loans	–	3.1%	8.0%	2.1%	1.4%	3.1%	10.3%	4.5%

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

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

	2016 US\$'000	2015 US\$'000
US dollar	–	167,800
Philippine Peso	14,581	12,496
Indonesian Rupiah	7,400	8,832
Others	7,199	6,691
	29,180	195,819

24 Share Capital, Share Options and Award Shares

	No. of Shares (in thousand)	HK\$'000	Equivalent US\$'000
Authorized			
At 1 January 2015, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 31 December 2015, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 1 January 2016, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
At 31 December 2016, ordinary shares of HK\$0.0125 each	12,000,000	150,000	19,231
Issued and Fully Paid			
At 1 January 2015, ordinary shares of HK\$0.0125 each	8,360,398	104,505	13,398
Issue of new shares of HK\$0.0125 each pursuant to Share Award Scheme (<i>Note</i>)	55,049	688	89
At 31 December 2015, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487
At 1 January 2016, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487
At 31 December 2016, ordinary shares of HK\$0.0125 each	8,415,447	105,193	13,487

NOTE:

The closing market price per Share on the date of the issue of new shares on 22 May 2015 was HK\$7.32 per Share.

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

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 31 December 2016 are as follows:

Grant Date	Exercise Price HK\$	Exercisable Period	Number of Share Options			As at 31/12/2016
			As at 1/1/2016	Granted	Lapsed	
22/12/2011	12.12 ⁽¹⁾	1/5/2014-30/4/2016	2,000,000	–	(2,000,000)	–
22/12/2011	12.12 ⁽¹⁾	1/5/2015-30/4/2017	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2016-30/4/2018	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2017-30/4/2019	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2018-30/4/2020	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2019-30/4/2021	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2020-30/4/2022	2,000,000	–	–	2,000,000
22/12/2011	12.12 ⁽¹⁾	1/5/2021-30/4/2023	2,000,000	–	–	2,000,000
21/5/2015	7.49	1/1/2016-31/12/2017	28,274,000	–	(604,000)	27,670,000
21/5/2015	7.49	1/1/2017-31/12/2018	29,935,000	–	(1,208,000)	28,727,000
21/5/2015	7.49	1/1/2018-31/12/2019	30,086,000	–	(1,208,000)	28,878,000
16/11/2015	5.81	1/1/2017-31/12/2018	285,000	–	–	285,000
16/11/2015	5.81	1/1/2018-31/12/2019	604,000	–	–	604,000
19/5/2016	4.27	1/1/2018-31/12/2019	–	604,000	–	604,000
Total			105,184,000	604,000	(5,020,000)	100,768,000

NOTE:

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

Subsequent to 31 December 2016, no Shares have been allotted and issued under the Share Option Scheme.

The Share Options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.21 years (2015: 3.15 years).

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

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

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

NOTES:

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

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

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 31 December 2016 are as follows:

Grant Date	Fair Value per Share HK\$	Vesting Date	Number of Award Shares				
			As at 1/1/2016	Granted	Vested	Unvested/ Forfeited	As at 31/12/2016
21/5/2015	7.49	31/12/2016	13,108,100	–	(11,922,800)	(1,185,300)	–
21/5/2015	7.49	31/12/2017	20,097,500	–	–	(1,828,000)	18,269,500
21/5/2015	7.49	31/12/2018	13,914,300	–	–	(1,279,900)	12,634,400
21/5/2015	7.49	31/12/2019	6,994,300	–	–	(643,400)	6,350,900
16/11/2015	5.33	31/12/2016	100,600	–	(90,400)	(10,200)	–
16/11/2015	5.33	31/12/2017	346,400	–	–	(33,700)	312,700
16/11/2015	5.33	31/12/2018	342,100	–	–	(33,000)	309,100
16/11/2015	5.33	31/12/2019	245,900	–	–	(23,100)	222,800
19/5/2016	4.27	31/12/2016	–	10,400	(10,000)	(400)	–
19/5/2016	4.27	31/12/2017	–	394,500	–	(11,700)	382,800
19/5/2016	4.27	31/12/2018	–	381,700	–	(11,100)	370,600
19/5/2016	4.27	31/12/2019	–	373,400	–	(10,800)	362,600
14/11/2016	3.53	31/12/2017	–	67,600	–	–	67,600
14/11/2016	3.53	31/12/2018	–	64,700	–	–	64,700
14/11/2016	3.53	31/12/2019	–	64,700	–	–	64,700
Total			55,149,200	1,357,000	(12,023,200)	(5,070,600)	39,412,400

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

During the year, a total of 1,357,000 Award Shares were granted. 22,000 Award Shares granted to a connected person were purchased from open market and 1,335,000 Award Shares granted to non-connected persons were applied from the 5,070,600 Award Shares which had not been vested and/or been forfeited in accordance with the terms of the Share Award Scheme.

25 Reserves

	Treasury Share US\$'000 (Note (iii))	Capital Reserve US\$'000 (Note (i))	Contribution Surplus US\$'000 (Note (ii))	Employee Share-based Compensation Reserve US\$'000	Revaluation Reserve US\$'000	Hedging Reserve US\$'000	Defined Benefit Obligation Reserve US\$'000	Exchange Reserve US\$'000	Total US\$'000
Balance at 1 January 2016	(13,300)	2,306	710,000	54,662	2,845	2,812	(11,129)	(193,293)	554,903
Other Comprehensive (Expense)/ Income									
Currency translation differences	-	-	-	-	-	-	-	(138,358)	(138,358)
Net fair value gains on available-for-sale financial assets, net of tax (Note 16)	-	-	-	-	310	-	-	-	310
Net fair value gains on cash flow hedges, net of tax	-	-	-	-	-	4,373	-	-	4,373
Remeasurement from post-employment benefits recognized in reserve, net of tax	-	-	-	-	-	-	(2,991)	-	(2,991)
Transactions with Owners in their Capacity as Owners									
Purchase of shares for Share Award Scheme	(12)	-	-	-	-	-	-	-	(12)
Employee Share Option and Share Award Scheme:									
– value of employee services	-	-	-	22,664	-	-	-	-	22,664
– vesting of shares for Share Award Scheme	1,659	-	-	(11,577)	-	-	-	-	(9,918)
Transfer to capital reserve	-	479	-	-	-	-	-	-	479
Balance at 31 December 2016	(11,653)	2,785	710,000	65,749	3,155	7,185	(14,120)	(331,651)	431,450

25 Reserves (continued)

	Treasury Share US\$'000 (Note (iii))	Capital Reserve US\$'000 (Note (i))	Contribution Surplus US\$'000 (Note (ii))	Employee Share-based Compensation Reserve US\$'000	Revaluation Reserve US\$'000	Hedging Reserve US\$'000	Defined Benefit Obligation Reserve US\$'000	Exchange Reserve US\$'000	Total US\$'000
Balance at 1 January 2015	(6,739)	3,922	710,000	37,049	2,719	8,889	(11,066)	(110,676)	634,098
Other Comprehensive (Expense)/ Income									
Currency translation differences	-	-	-	-	-	-	-	(82,617)	(82,617)
Net fair value gains on available-for-sale financial assets, net of tax (Note 16)	-	-	-	-	126	-	-	-	126
Net fair value losses on cash flow hedges, net of tax	-	-	-	-	-	(6,077)	-	-	(6,077)
Remeasurement from post-employment benefits recognized in reserve, net of tax	-	-	-	-	-	-	(63)	-	(63)
Transactions with Owners in their Capacity as Owners									
Issue of new shares for Share Award Scheme	(89)	-	-	-	-	-	-	-	(89)
Purchase of shares for Share Award Scheme	(7,300)	-	-	-	-	-	-	-	(7,300)
Employee Share Option and Share Award Scheme:									
– value of employee services	-	-	-	23,583	-	-	-	-	23,583
– vesting of shares for Share Award Scheme	828	-	-	(5,970)	-	-	-	-	(5,142)
Transfer from capital reserve	-	(1,616)	-	-	-	-	-	-	(1,616)
Balance at 31 December 2015	(13,300)	2,306	710,000	54,662	2,845	2,812	(11,129)	(193,293)	554,903

NOTES:

- (i) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with local statutory requirements.
- (ii) Contributed surplus arises from the transfer from share premium of US\$3,000,000,000 offset by the distribution in specie of US\$2,290,000,000 in prior years.
- (iii) Treasury share represents the excess share issued for settlement of consideration for certain prior year acquisitions held by the escrow agent and shares issued and purchased for Share Award Scheme held by the trustee.

26 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the “Perpetual Capital Securities”) with an aggregate principal amount of US\$650 million and US\$500 million respectively. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities were classified as equity instruments and recorded in equity in the consolidated balance sheet. The amounts as at 31 December 2016 and 2015 included the accrued distribution payments.

27 Long-term Liabilities

	2016 US\$'000	2015 US\$'000
Long-term bank loans – unsecured (<i>Note 23</i>)	–	100,000
Long-term notes – unsecured	1,253,277	1,253,823
Purchase consideration payable for acquisitions	161,536	242,502
Other long-term liabilities	32,589	16,420
	1,447,402	1,612,745
Current portion of long-term notes – unsecured	(499,819)	–
Current portion of purchase consideration payable for acquisitions	(67,794)	(86,266)
	879,789	1,526,479

Unsecured long-term notes issued to independent third parties in 2007 of US\$499,819,000 will mature in 2017 and bear annual coupon of 5.5%. Unsecured long-term notes issued to independent third parties in 2010 of US\$753,458,000 will mature in 2020 and bear annual coupon of 5.25%.

Non-current portion of purchase consideration payable for acquisitions is unsecured, interest-free and not repayable within twelve months. Balance of purchase consideration payable for acquisitions as at 31 December 2016 amounted to US\$161,536,000 (2015: US\$242,502,000), of which US\$105,598,000 (2015: US\$181,186,000) was primarily earn-out and US\$55,938,000 (2015: US\$61,316,000) was earn-up. Earn-out is a contingent consideration that will be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated periods of time. Earn-up is contingent consideration that will be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated period of time. Details of earn-out and earn-up remeasurement are set out in *Note 4* and *Note 37*.

27 Long-term Liabilities (continued)

The maturity of financial liabilities is as follows:

	2016 US\$'000	2015 US\$'000
Within 1 year	567,613	86,266
Between 1 and 2 years	92,184	676,509
Between 2 and 5 years	759,023	841,129
Wholly repayable within 5 years	1,418,820	1,603,904
Over 5 years	28,582	8,841
	1,447,402	1,612,745

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

	2016 US\$'000	2015 US\$'000
Long-term bank loans – unsecured	–	100,000
Long-term notes – unsecured	803,817	1,326,280
Purchase consideration payable for acquisitions	93,742	156,236
Other long-term liabilities	36,872	16,611
	934,431	1,599,127

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

	2016 US\$'000	2015 US\$'000
US dollar	1,376,652	1,534,682
Pound sterling	18,227	18,626
Others	52,523	59,437
	1,447,402	1,612,745

28 Post-employment Benefit Obligations

	2016 US\$'000	2015 US\$'000
Pension obligations (<i>Note</i>)	18,560	16,813
Long-service payment liabilities	3,957	5,096
	22,517	21,909

NOTE:

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

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

	2016 US\$'000	2015 US\$'000
Present value of funded obligations	39,430	39,642
Fair value of plan assets	(20,870)	(22,829)
Net liabilities in the consolidated balance sheet	18,560	16,813

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

	2016 US\$'000	2015 US\$'000
Current service cost	1,618	1,757
Past service cost and loss on settlements	40	243
Administrative expenses paid	110	102
Net interest expense	393	447
Total, included in staff costs (<i>Note 9</i>)	2,161	2,549

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

	2016 US\$'000	2015 US\$'000
At 1 January	22,829	23,973
Interest income	590	675
Exchange differences	(2,267)	(995)
Administrative expenses paid	(110)	(102)
Contributions	1,446	1,331
Benefits paid	(2,092)	(1,972)
Actuarial gain/(loss) on plan assets	832	(81)
Disposal of business	(358)	—
At 31 December	20,870	22,829

28 Post-employment Benefit Obligations (continued)

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

	2016 US\$'000	2015 US\$'000
At 1 January	39,642	40,922
Current service cost	1,618	1,757
Interest cost	983	1,122
Past service cost and loss on settlements	40	243
Actuarial losses from changes in experiences	751	1,616
Actuarial losses from changes in financial assumptions	3,169	125
Actuarial gains from changes in demographic assumptions	(34)	(1,026)
Exchange differences	(3,063)	(1,860)
Benefits paid	(3,281)	(3,257)
Disposal of business	(395)	–
At 31 December	39,430	39,642

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

	2016 US\$'000	2015 US\$'000
At 1 January	16,813	16,949
Exchange differences	(796)	(865)
Total expense charged in the consolidated profit and loss account	2,161	2,549
Remeasurement losses recognized in other comprehensive income	3,054	796
Contributions paid	(1,446)	(1,331)
Benefits paid	(1,189)	(1,285)
Disposal of business	(37)	–
At 31 December	18,560	16,813

28 Post-employment Benefit Obligations (continued)

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

	2016 %	2015 %
Discount rate	1.2-8.2	1.0-8.9
Salary growth rate	2.4-8.0	2.0-8.0
Pension growth rate	1.5-4.5	1.5-4.5

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	±0.25%	-2.72%	+2.85%

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

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

(vii) Plan assets comprised:

	2016 US\$'000	2015 US\$'000
Quoted Assets		
Cash and cash equivalents	7,327	8,061
Equity instruments		
European	2,563	2,781
American	622	621
Asian	713	800
Global	4	4
Debt instruments		
Government securities	4,380	5,117
Other securities and debt instruments	3,584	3,151
Investment funds		
Unit investment trust funds	596	1,436
Investment bond funds	790	735
Mutual funds	141	9
Others	150	114
	20,870	22,829

The weighted average duration of the defined benefit obligation ranges from 9.3 to 19.2 years.

28 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

At 31 December 2016	Within 10 Years US\$'000	Between 10-20 Years US\$'000	Beyond 20 Years US\$'000
Expected benefit payments	27,696	34,588	29,227

The Group is exposed to a number of risks in relation to the defined benefit obligation, the most significant of which are detailed below:

Investment risk	The defined benefit pension holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The defined benefit pension's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. In countries where there is no deep market in such bonds, the market yields on government bonds are used. As the defined benefit pension holds assets such as equities, the value of the assets and liabilities may not move in the same way.
Inflation risk	A significant proportion of the benefits under the defined benefit pension are linked to inflation. Although the defined benefit pension's assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to deficits emerging.
Mortality risk	In the event that members live longer than assumed, a deficit will emerge in the defined benefit pension.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

29 Deferred Taxation

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

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

	2016 US\$'000	2015 US\$'000
At 1 January	(1,163)	7,278
Credited to consolidated profit and loss account (Note 6)	(5,209)	(3,376)
Recognition of prior year unrecognized deferred tax assets (Note 6)	–	(6,795)
Acquisition of businesses	(177)	–
Disposal of business	16,320	–
Adjustments to purchase consideration payable for acquisitions and net asset value	–	(128)
Charged to other comprehensive income	–	37
Charged to hedging reserve	1,156	1,045
Exchange differences	1,605	776
At 31 December	12,532	(1,163)

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US\$166,904,000 (2015: US\$164,974,000) to carry forward against future taxable income, out of which US\$11,740,000 will expire during 2017-2026. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

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

Deferred Tax Assets	Decelerated Tax									
	Provisions		Depreciation Allowances		Tax Losses		Others		Total	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
At 1 January	24,037	24,290	9,682	8,617	22,580	7,166	3,475	7,805	59,774	47,878
Credited/(charged) to consolidated profit and loss account	3,518	707	(824)	1,271	4,190	8,895	1,351	(3,228)	8,235	7,645
Recognition of prior year unrecognized deferred tax assets	–	–	–	–	–	6,795	–	–	–	6,795
Charged to other comprehensive income	–	–	–	–	–	–	–	(37)	–	(37)
Disposal of business	(6,739)	–	(115)	–	(12,262)	–	(145)	–	(19,261)	–
Charged to hedging reserve	–	–	–	–	–	–	–	(1,045)	–	(1,045)
Exchange differences	(614)	(960)	(1,028)	(206)	(583)	(276)	(4)	(20)	(2,229)	(1,462)
At 31 December	20,202	24,037	7,715	9,682	13,925	22,580	4,677	3,475	46,519	59,774

29 Deferred Taxation (continued)

Deferred Tax Liabilities	Accelerated Tax Depreciation Allowances		Intangible Assets Arising from Business Combinations		Others		Total	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
At 1 January	6,496	8,471	49,030	44,654	3,085	2,031	58,611	55,156
Charged/(credited) to consolidated profit and loss account	1,827	(1,252)	1,910	4,448	(711)	1,073	3,026	4,269
Acquisition of businesses	(177)	–	–	–	–	–	(177)	–
Disposal of business	(2,538)	–	(403)	–	–	–	(2,941)	–
Adjustments to purchase consideration payable for acquisitions and net asset value	–	–	–	(128)	–	–	–	(128)
Credited to hedging reserve	–	–	–	–	1,156	–	1,156	–
Exchange differences	(448)	(723)	(9)	56	(167)	(19)	(624)	(686)
At 31 December	5,160	6,496	50,528	49,030	3,363	3,085	59,051	58,611

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

	2016 US\$'000	2015 US\$'000
Deferred tax assets	16,419	36,527
Deferred tax liabilities	(28,951)	(35,364)
	(12,532)	1,163

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

	2016 US\$'000	2015 US\$'000
Deferred tax assets to be recovered after more than 12 months	4,038	32,286
Deferred tax assets to be recovered within 12 months	12,381	4,241
Deferred tax liabilities to be settled after more than 12 months	24,967	33,829
Deferred tax liabilities to be settled within 12 months	3,984	1,535

30 Notes to the Consolidated Cash Flow Statement

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

	2016 US\$'000	2015 US\$'000
Profit before taxation	306,781	506,775
Interest income	(16,324)	(9,761)
Interest expenses	91,496	99,541
Depreciation	57,911	61,506
Amortization of system development, software and other license costs	11,517	14,538
Amortization of other intangible assets	33,801	34,412
Amortization of prepaid premium for land leases	65	119
Share of profits less losses of associated companies and joint venture	(1,748)	(1,570)
Employee share option and share award expenses	22,664	23,583
Gain on disposal of business	(7,871)	–
Loss on disposal of an associated company	–	423
Loss on disposal of property, plant and equipment, net	789	1,679
Gain on remeasurement of contingent consideration payable	–	(116,973)
Operating profit before working capital changes	499,081	614,272
Decrease/(increase) in inventories	65,430	(711)
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	(62,687)	161,537
Decrease in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	(62,566)	(166,334)
Net cash inflow generated from operations	439,258	608,764

30 Notes to the Consolidated Cash Flow Statement (continued)**(b) Analysis of Changes in Financing Activities During the Year**

	2016		2015	
	Share Capital Including Share Premium US\$'000 (Note 24 & 25)	Bank Loans US\$'000	Share Capital Including Share Premium US\$'000 (Note 24 & 25)	Bank Loans US\$'000
At 1 January	718,105	195,819	712,874	179,850
Non-cash movement:				
Issue of shares for Share Award Scheme	–	–	89	–
Vesting of shares for Share Award Scheme	9,918	–	5,142	–
	728,023	195,819	718,105	179,850
Net (repayment)/drawdown of bank loans	–	(166,639)	–	15,969
At 31 December	728,023	29,180	718,105	195,819

30 Notes to the Consolidated Cash Flow Statement (continued)**(c) Disposal of Business**

Details of net assets of disposed business at date of disposal are set out below:

	2016 US\$'000
Net assets disposed	
Non-current assets	278,186
Current assets	540,177
Current liabilities	(495,861)
Non-current liabilities	(3,002)
Less: Non-controlling interests	(4,255)
Book value of net assets disposed	315,245

Analysis of net inflow of cash and cash equivalents in respect of the disposal:

	2016 US\$'000
Consideration received net of expenses paid	305,434
Settlement of amount due from the disposed business to the Group	65,917
Less: Cash and cash equivalents of the disposed business	(55,155)
Net inflow of cash and cash equivalents in respect of disposal of business	316,196

Analysis of net gain on disposal of business:

	2016 US\$'000
Estimated consideration net of expenses incurred	323,116
Less: Net assets disposed	(315,245)
Net gain on disposal of business	7,871

31 Contingent Liabilities

	2016 US\$'000	2015 US\$'000
Guarantees in respect of banking facilities granted to:		
Associated companies	750	750

32 Commitments

(a) Operating Lease Commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 18 years. At 31 December 2016, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016 US\$'000	2015 US\$'000
Within one year	115,096	139,170
In the second to fifth year inclusive	227,061	209,399
After the fifth year	84,476	119,010
	426,633	467,579

(b) Capital Commitments

	2016 US\$'000	2015 US\$'000
Contracted but not provided for:		
Property, plant and equipment	2,665	1,945
System development, software and other license costs	3,134	1,170
	5,799	3,115

33 Charges on Assets

Save as disclosed in *Note 12*, there were no charges on the assets and undertakings of the Group as at 31 December 2016 and 2015.

34 Related Party Transactions

The Group had the following material transactions with its related parties during the year ended 31 December 2016 and 2015:

	Note	2016 US\$'000	2015 US\$'000
Distribution and sales of goods	(i)	20,090	28,128
Operating leases rental paid	(ii)	26,242	26,018
Sourcing and supply chain management services income	(iii)	1,412,770	1,627,351
Rental and license fee paid	(iv)	1,027	2,287
Rental and license fee received	(iv)	3,282	3,464
Logistics related services income	(v)	15,530	10,894

- (i) Pursuant to the master distribution and sales of goods agreement entered into on 5 December 2014 with FH (1937) for a term of three years ending 31 December 2017, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.
- (ii) Pursuant to the master agreement for leasing of properties dated 6 December 2013 entered into with FH (1937) for a term of three years ending 31 December 2016, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms.
- (iii) Pursuant to the buying agency agreement entered into with Global Brands Group on 24 June 2014, the Group provided sourcing and supply chain management services to Global Brands Group and its associates for a term of three years from the listing date of Global Brands Group. For the year ended 31 December 2016, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income of approximately US\$1,412,770,000 (2015: US\$1,627,351,000).
- (iv) Pursuant to the master property agreement entered into with Global Brands Group on 24 June 2014, the Group and Global Brands Group had rental and license fee to and from one another for certain properties and license offices, showroom and warehouse premises on mutually agreed terms from the listing date of Global Brands Group to 31 December 2016. For the year ended 31 December 2016, aggregate rental and license fee paid to and from one another approximated to US\$4,309,000 (2015: US\$5,751,000).
- (v) Pursuant to the master agreement for provision of logistics-related services entered into on 20 August 2015, the Group provided certain logistics-related services to FH (1937) and its associates during the year. The aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated to US\$15,530,000 (2015: US\$10,894,000).

The foregoing related party transactions also fall under the definition of continuing connected transactions of the Company as stipulated in the Listing Rules on the Stock Exchange.

During the year, a subsidiary of the Group disposed of the entire issued share capital of a property company which solely owns the property to a subsidiary of FH (1937) for a cash consideration of approximately US\$4,375,000. The Group also entered into a leaseback agreement at an annual rental of approximately US\$288,000 for a term up to 30 December 2019.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in *Notes 10 and 39*.

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

35 Financial Risk Management

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

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

Most of the Group's cash balances were deposits in HK dollar and US dollar with major global financial institutions, and the Group's revenues and payments were transacted predominantly in US dollar. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations.

There are small portion of sales and purchases transacted in different currencies, for which the Group arranges hedging by means of foreign exchange forward contracts. Other than this, the Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2016, if the major foreign currencies, such as Euro dollar and Sterling Pound, to which the Group had exposure had strengthened/weakened by 10% (2015: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 1.8% (2015: 2.2%) and 2.7% (2015: 3.5%) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, borrowings and intangible assets.

(II) PRICE RISK

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group maintains these investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2016 and up to the report date of the financial statements, the Group held no material financial derivative instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2016, the fair value of foreign exchange forward contracts entered into by the Group amounted to US\$10,697,000 (2015: US\$4,272,000), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments assets.

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

At 31 December 2016, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately US\$1,401,000 (2015: US\$1,273,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

35 Financial Risk Management (continued)

(b) Credit Risk

Credit risk mainly arises from trade and other receivables as well as cash and bank balances of the Group.

Most of the Group's cash and bank balances are held in major global financial institutions.

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

- (i) The Group selects customers in a cautious manner. Its credit control team has implemented a risk assessment system to evaluate its customers' financial strengths prior to agreeing at the trade terms with individual customers. It is not uncommon that the Group requires securities (such as standby or commercial letter of credit, or bank guarantee) from a small number of its customers that fall short of the required minimum score under its Risk Assessment System;
- (ii) A significant portion of trade receivable balances are covered by trade credit insurance or factored to external financial institutions on a non-recourse basis;
- (iii) It has in place a close monitoring system with a dedicated team to ensure on-time recoveries from its trade debtors; and
- (iv) Internally it has set up rigid policies on provision made for both inventories and receivables to motivate its business managers to step up efforts in these two areas so as to avoid any significant impact on their financial performance.

The Group's five largest customers, in aggregate, account for 36% of the Group's business. Transactions with these customers are entered into within the credit limits designated by the Group.

Except for trade receivables of US\$56,599,000 (2015: US\$35,252,000) and other receivables of US\$17,452,000 (2015: US\$11,316,000), which were considered impaired and fully provided, none of the other financial assets including available-for-sale financial assets (*Note 16*) and due from related companies (*Note 18*) are considered impaired as there is no recent history of default of the counterparties. The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

35 Financial Risk Management (continued)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents (*Note 21*)) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's non-derivative financial liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts will not reconcile to the amounts disclosed on the consolidated balance sheet and in *Note 27* for long-term liabilities.

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
At 31 December 2016				
Purchase consideration payable for acquisitions	71,121	97,575	894	3,983
Long-term notes – unsecured	553,125	39,375	809,063	–
Trade and bills payable	2,083,875	–	–	–
Accrued charges and sundry payables	517,234	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	2,093	–	–	–
Bank advances for discounted bills	22,773	–	–	–
Short-term bank loans	29,180	–	–	–
At 31 December 2015				
Long-term bank loans	–	100,000	–	–
Purchase consideration payable for acquisitions	87,433	70,271	94,538	–
Long-term notes – unsecured	66,875	553,125	848,438	–
Trade and bills payable	2,464,785	–	–	–
Accrued charges and sundry payables	601,129	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	1,038	–	–	–
Bank advances for discounted bills	33,681	–	–	–
Short-term bank loans	95,819	–	–	–

All of the Group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of US\$299,688,000 (2015: US\$212,734,000) and undiscounted contractual cash outflows of US\$288,570,000 (2015: US\$208,742,000).

36 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans (*Note 23*), long-term bank loans (*Note 23*) and long-term notes (*Note 27*) less cash and cash equivalents (*Note 21*)). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 US\$'000	2015 US\$'000
Long-term bank loans (<i>Note 23</i>)	–	100,000
Short-term bank loans (<i>Note 23</i>)	29,180	95,819
Long-term notes (<i>Note 27</i>)	1,253,277	1,253,823
	1,282,457	1,449,642
Less: Cash and cash equivalents (<i>Note 21</i>)	(985,039)	(342,243)
Net debt	297,418	1,107,399
Total equity	3,483,148	3,010,166
Total capital	3,780,566	4,117,565
Gearing ratio	8%	27%

37 Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Available-for-sale financial assets (<i>Note 16</i>)				
– Club debentures	–	–	4,164	4,164
Derivative financial instrument used for hedging (<i>Note 19</i>)	–	10,697	–	10,697
Total Assets	–	10,697	4,164	14,861
Liability				
Purchase consideration payable for acquisitions	–	–	161,536	161,536
Total Liability	–	–	161,536	161,536

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015:

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Available-for-sale financial assets (<i>Note 16</i>)				
– Club debentures	–	–	3,854	3,854
Derivative financial instrument used for hedging (<i>Note 19</i>)	–	4,272	–	4,272
Total Assets	–	4,272	3,854	8,126
Liability				
Purchase consideration payable for acquisitions	–	–	242,502	242,502
Total Liability	–	–	242,502	242,502

37 Fair Value Estimation (continued)

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfer of assets between level 1, level 2 and level 3 fair value hierarchy classifications during the year.

The following summarizes the major methods and assumptions used in estimating the fair values of the significant assets and liabilities classified as level 2 or 3 and the valuation process for assets and liabilities classified as level 3:

DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGING

The Group relies on bank valuations to determine the fair value of financial assets/liabilities which in turn are determined using discounted cash flow analysis. These valuations maximize the use of observable market data. Foreign currency exchange prices are the key observable inputs in the valuation.

PURCHASE CONSIDERATION PAYABLE FOR ACQUISITIONS

The Group recognizes the fair value of those purchase considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired businesses and significant judgment on time value of money. These calculations use cash flow projections for post-acquisition performance. The discount rate used is based on the then prevailing incremental cost of borrowings of the Group at time of acquisitions, which approximated to 2.5%.

37 Fair Value Estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015.

	2016		2015	
	Purchase Consideration Payable for Acquisitions US\$'000	Others US\$'000	Purchase Consideration Payable for Acquisitions US\$'000	Others US\$'000
Opening balance	242,502	3,854	458,080	3,709
Fair value gains	–	310	–	126
Additions	6,747	–	–	–
Settlement	(89,058)	–	(102,268)	–
Remeasurement of acquisitions payable	–	–	(116,973)	–
Others	1,345	–	3,663	19
Closing balance	161,536	4,164	242,502	3,854
Total gain for the year included in profit or loss	–	–	(116,973)	–

38 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December	
		2016 US\$'000	2015 US\$'000
Non-current Assets			
Interests in subsidiaries		1,126,780	1,339,604
Current Assets			
Due from subsidiaries		5,147,051	4,182,044
Other receivables, prepayments and deposits		140	139
Cash and bank balances		293	5,808
		5,147,484	4,187,991
Current Liabilities			
Accrued charges and sundry payables		10,093	9,464
Current portion of long-term notes		499,819	–
		509,912	9,464
Net Current Assets		4,637,572	4,178,527
Total Assets Less Current Liabilities		5,764,352	5,518,131
Financed by:			
Share capital		13,487	13,487
Reserves	(a)	3,838,719	3,747,821
Shareholders' funds		3,852,206	3,761,308
Holders of perpetual capital securities		1,158,687	503,000
Total Equity		5,010,893	4,264,308
Non-current Liabilities			
Long-term notes		753,459	1,253,823
		5,764,352	5,518,131

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

38 Balance Sheet and Reserve Movement of the Company (continued)**(a) Reserve Movement of the Company**

	Share Premium US\$'000	Treasury Share US\$'000 (Note 25 (iii))	Contribution Surplus US\$'000 (Note (i))	Employee Share-based Compensation Reserve US\$'000	Retained Earnings US\$'000	Total US\$'000
Balance at 1 January 2016	704,618	(13,300)	974,189	54,662	2,027,652	3,747,821
Profit for the year	–	–	–	–	354,707	354,707
Purchase of shares						
for Share Award Scheme	–	(12)	–	–	–	(12)
Employee Share Option and Share Award Scheme:						
– value of employee services	–	–	–	22,664	–	22,664
– vesting of shares						
for Share Award Scheme	9,918	1,659	–	(11,577)	–	–
Transaction costs related to issuance of perpetual capital securities	–	–	–	–	(4,500)	(4,500)
2015 final dividend paid	–	–	–	–	(162,670)	(162,670)
2016 interim dividend paid	–	–	–	–	(119,291)	(119,291)
Balance at 31 December 2016	714,536	(11,653)	974,189	65,749	2,095,898	3,838,719
Balance at 1 January 2015	699,476	(6,739)	974,189	37,049	2,184,652	3,888,627
Profit for the year	–	–	–	–	287,309	287,309
Issue of shares						
for Share Award Scheme	–	(89)	–	–	–	(89)
Purchase of shares						
for Share Award Scheme	–	(7,300)	–	–	–	(7,300)
Employee Share Option and Share Award Scheme:						
– value of employee services	–	–	–	23,583	–	23,583
– vesting of shares						
for Share Award Scheme	5,142	828	–	(5,970)	–	–
2014 final and special dividend paid	–	–	–	–	(303,388)	(303,388)
2015 interim dividend paid	–	–	–	–	(140,921)	(140,921)
Balance at 31 December 2015	704,618	(13,300)	974,189	54,662	2,027,652	3,747,821

NOTE:

(i) The contribution surplus of the Company represents:

- (1) The difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to US\$14,232,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.
- (2) The difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to US\$249,957,000. At Group level, the amount is set off against goodwill arising from the acquisition.
- (3) The transfer from share premium of US\$3,000,000,000 offset by the distribution in specie of US\$2,290,000,000 in prior years.

39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' and Chief Executive's Emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Emoluments Paid or Receivable in respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking:									Emoluments Paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking	Total
Name	Fees US\$'000	Salary US\$'000	Discretionary Bonuses US\$'000 (Note (i))	Housing Allowance US\$'000	Award Shares Gain US\$'000 (Note (ii))	Estimated Money Value of Other Benefits US\$'000 (Note (iii))	Employer's Contribution to a Retirement Benefit Scheme US\$'000	Remunerations Paid or Receivable in respect of Accepting Office as Director US\$'000	US\$'000	US\$'000
Executive Directors										
William Fung Kwok Lun	39	618	1,335	-	-	-	-	-	-	1,992
Spencer Theodore Fung	39	653	1,745	-	107	-	2	-	-	2,546
Marc Robert Compagnon	39	603	3,129	-	91	38	2	-	-	3,902
Non-executive Directors										
Victor Fung Kwok King	58	-	-	-	-	-	-	-	-	58
Paul Edward Selway-Swift	64	-	-	-	-	-	-	-	-	64
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71
Martin Tang Yue Nien	65	-	-	-	-	-	-	-	-	65
Margaret Leung Ko May Yee	64	-	-	-	-	-	-	-	-	64

NOTES:

- (i) The amounts are accrued discretionary bonuses for 2016.
- (ii) Award Shares gain is determined based on the market price at the vesting date.
- (iii) Other benefits include mortgage interest subsidy.

39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and Chief Executive's Emoluments (continued)

For the year ended 31 December 2015:

Emoluments Paid or Receivable in respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking:										Emoluments paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking	Total
Name	Fees US\$'000	Salary US\$'000	Discretionary Bonuses US \$'000 (Note (i))	Housing Allowance US\$'000	Award Shares Gain US\$'000 (Note (ii))	Estimated Money Value of Other Benefits US\$'000 (Note (iii))	Employer's Contribution to a Retirement Benefit Scheme US\$'000	Remunerations Paid or Receivable in respect of Accepting Office as Director US\$'000			
Executive Directors											
William Fung Kwok Lun	39	618	1,828	-	-	-	-	-	-	2,485	
Spencer Theodore Fung	39	703	2,411	-	61	-	2	-	-	3,216	
Marc Robert Compagnon	39	639	3,127	-	52	43	2	-	-	3,902	
Non-executive Directors											
Victor Fung Kwok King	61	-	-	-	-	-	-	-	-	61	
Paul Edward Selway-Swift	64	-	-	-	-	-	-	-	-	64	
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71	
Franklin Warren McFarlan (Note (iv))	27	-	-	-	-	-	-	-	-	27	
Martin Tang Yue Nien	64	-	-	-	-	-	-	-	-	64	
Margaret Leung Ko May Yee	64	-	-	-	-	-	-	-	-	64	

NOTES:

- (i) The amounts are accrued discretionary bonuses for 2015.
- (ii) Award Shares gain is determined based on the market price at the vesting date.
- (iii) Other benefits include mortgage interest subsidy.
- (iv) Retired as Independent Non-executive Director of the Company with effect from 21 May 2015.

39 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and Chief Executive's Emoluments (continued)

During the year, no Share (2015: Nil) was issued to any Directors of the Company under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2016, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
14,000,000 (2015: 16,000,000)	HK\$12.12 ⁽¹⁾	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
16,023,000 (2015: 16,023,000)	HK\$7.49	Exercisable in three equal tranches during the period from 1/1/2016 to 31/12/2019 with each tranche having an exercisable period of two years

NOTE:

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

The closing market price of the Shares as at 30 December 2016 was HK\$3.41.

(b) Directors' Termination Benefits

No termination benefit was provided to or receivable by any director during the year as compensation for the early termination of appointment (2015: None).

(c) Consideration Provided to Third Parties for Making Available Directors' Services

No consideration was provided to or receivable by third parties for making available directors' services (2015: None).

(d) Information about Loans, Quasi-Loans and Other Dealings in Favour of Directors, Controlled Bodies Corporate by and Connected Entities with Such Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2015: None).

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

40 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 29 March 2017.

41 Principal Subsidiaries, Associated Companies and Joint Venture

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
	Held Directly				
(1)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US\$12,000	100	Investment holding
(1)	LF Centennial Limited	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
(1)	LF Credit Limited	Bermuda	Ordinary US\$12,000	100	Investment holding
	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US\$400,010	100	Marketing services and investment holding
	Held Indirectly				
(1)	AGI Logistics Foreign Holdings LLC	U.S.A.	Capital contribution US\$1	100	Investment holding
	Algreta Solutions Limited	England	Ordinary GBP10,527	100	Sale and distribution of security products
(1)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US\$1	100	Investment holding
	B.G.S. Limited	Thailand	Ordinary Baht 288,000 Preference Baht 712,000	100	Provision of laboratory services
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Bossini Fashion GmbH	Germany	EUR468,000	100	Importer
	Camberley Enterprises Limited	Hong Kong	Ordinary HK\$250,000	100	Manufacturing and trading
	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100	Export trading services
				foreign-owned enterprise	
(1)	Catalyst Direct Sarl	France	EUR10,000	100	Wholesaling
(1)	Catalyst Tags Inc.	U.S.A.	Common stock US\$10,000	100	Distribution
(1)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	EUR8,931,250	100	Investment holding
	Character Direct Limited	Hong Kong	Ordinary HK\$2	100	Design and marketing
	Chuan Jui Chuan Logistics Co., Ltd.	Taiwan	NT\$25,000,000	100	Transportation
	Chuan Jui Fu Logistics Co., Ltd.	Taiwan	NT\$25,000,000	100	Transportation
(1)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US\$45,000	100	Investment holding
(1)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Comet Feuerwerk GmbH	Germany	EUR1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
(1)	Covo Design (Dongguan) Co., Ltd.	The People's Republic of China	US\$4,000,000	100	Sample production and exporting trading services
				foreign-owned enterprise	

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	Crimzon Rose Accessories (Shenzhen) Co. Ltd.	The People's Republic of China	HK\$1,500,000	100 foreign-owned enterprise	Wholesaling
	CS International Limited	Hong Kong	Ordinary HK\$1,000,000	100	Provision of supply chain management and consultancy services
	Definitive Sourcing (India) Private Limited	India	Rs100,000	100	Buying services for sourcing goods
(1)	Direct Sourcing Group Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
(1)	Direct Sourcing Group Investment Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S\$10,000	100	Export trading
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK\$300,000 Ordinary "B" HK\$200,000	60	Export trading
	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S\$200,000	100	Export trading
(1)	Dongguan LF Beauty Manufacturing Services Limited	The People's Republic of China	HK\$11,220,000	100 foreign-owned enterprise	Trading and manufacturing
(1)	Dongguan LF Products Trading Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Sample design and export trading services
	DSG (Bangladesh) Limited	Bangladesh	Ordinary TK\$3,750,000	100	Export trading services
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Provision of management support services
	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	DSG (US) Inc.	U.S.A.	Common stock US\$1	100	Sourcing service
	DSG Services Pte. Ltd.	Singapore	Ordinary S\$10,000	100	Export trading services
	Estuary Logistics Group Limited	England	Ordinary "A" GBP95 Ordinary "B" (Non-voting) GBP5	100	Investment holding
	Estuary Logistics Limited	England	Ordinary "A" GBP200 Ordinary "B" (Non-voting) GBP100	100	Provision of logistics services
(1)	Far East Logistics (Shenzhen) Co. Ltd.	The People's Republic of China	HK\$1,500,000	100 foreign-owned enterprise	Wholesaling
	Fenix Fashion Limited	Hong Kong	Ordinary HK\$1	100	Export trading
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Export trading

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US\$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Curacao	US\$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK\$140,000	100	Export trading
(1)	GSCM LLC	U.S.A.	Capital contribution US\$1	100	Trading of apparel
	Hanson Im-und Export GmbH	Germany	EUR26,000	100	Wholesaling
(1)	Homeworks (Europe) B.V.	The Netherlands	Ordinary EUR18,000	100	Export trading
	Homeworks Asia Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	HTL Fashion (UK) Limited	England	Ordinary GBP1	100	Design and export trading
	HTL Fashion Hazir Giyim Sanayi ve Ticaret Limited Sirketi	Turkey	YTL25,000	100	Manufacturing
(1)	IDS Group Limited	British Virgin Islands	Ordinary US\$949,165	100	Investment holding
	Imagine POS Limited	Hong Kong	Ordinary "A" HK\$2,000,000 Ordinary "B" HK\$757,471	100	Export trading
	Imagine POS UK Limited	England	Ordinary GBP100	100	Cosmetic estate management services
	International Sources Trading Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	Jackel Cosmetics Limited	Hong Kong	Class "A" HK\$9,950,645 Class "B" non-voting HK\$13,890	100	Export trading
	Jackel International (Asia) Limited	Hong Kong	Ordinary "A" HK\$346,650 Ordinary "B" HK\$86,850	100	Investment holding
(1)	Jackel, Inc.	U.S.A.	Class "A" voting common stock US\$1 Class "B" non-voting common stock US\$99	100	Export trading
	JV Cosmetics Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Investment holding
	Kariya Industries Limited	Hong Kong	Ordinary HK\$1,000,000	100	Export trading
	Lenci Calzature SpA	Italy	Equity shares EUR206,400	100	Design, marketing and sourcing
	LF (Philippines), Inc.	The Philippines	Common shares Pesos 21,000,000	100	Provision of logistics services
(1)	LF Beauty (Shenzhen) Limited	The People's Republic of China	HK\$8,500,000	100 foreign-owned enterprise	Export trading services
	LF Beauty (Thailand) Limited	Thailand	Ordinary Baht 469,500,000	100	Manufacturing of household, pharmaceutical and personal care products
	LF Beauty (UK) Limited	England	Ordinary GBP100	100	Design, marketing and manufacturing
(1)	LF Beauty France SAS (Formerly known as Jackel France SAS)	France	Ordinary EUR37,500	100	Export trading

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	LF Beauty Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	LF Beauty Limited	Hong Kong	Ordinary HK\$1	100	Export trading
(1)	LF Beauty Manufacturing China Co. Ltd.	The People's Republic of China	HK\$105,000,000	100 foreign-owned enterprise	Manufacturing and trading
	LF Centennial Pte. Ltd.	Singapore	Ordinary S\$100,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Provision of management support services
(1)	LF Corporate Capital (I) Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	LF Credit Pte. Ltd.	Singapore	Ordinary S\$1,000,000	100	Provision of trade-related credit services
(1)	LF Distribution Holding Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	LF Distribution International Holding Limited	Hong Kong	Ordinary US\$1	100	Investment holding
(1)	LF Distribution International Inc.	U.S.A.	Common stock US\$1	100	Investment holding
(1)	LF Distribution Limited	Bermuda	Ordinary US\$100	100	Investment holding
	LF Europe (Germany) Services GmbH	Germany	EUR25,000	100	Provision of accounting services
	LF Europe Limited	England	Ordinary GBP26,788,000	100	Investment holding
	LF Europe Trading Limited (Formerly known as 888 UK Limited)	England	Ordinary GBP100	100	Service company
	LF Fashion (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Export trading services
	LF Fashion Pte. Ltd.	Singapore	Ordinary S\$10,000	100	Export trading
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK\$2	100	Provision of management support services
	LF Home Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	LF International Inc.	U.S.A.	Common stock US\$30,002	100	Investment management
	LF Logistics (Bangladesh) Limited	Bangladesh	Ordinary TK\$10,000,000	100	Provision of freight forwarding services
	LF Logistics (Cambodia) Limited	Cambodia	Ordinary Riels 20,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics (China) Co., Ltd	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Provision of freight forwarding and other logistics services
(1)	LF Logistics (Guangzhou) Co., Ltd.	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Provision of logistics services
	LF Logistics (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	100	Provision of logistics services

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

Note	Principal Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
(1)	LF Logistics (India) Private Limited	India	Ordinary Rs15,000,000	100	Logistics, supply chain management and freight forwarding
(1)	LF Logistics (Jiangsu) Co., Ltd.	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Provision of logistics services
	LF Logistics (Taiwan) Limited	Hong Kong	Ordinary HK\$200	100	Provision of logistics and packaging services
	LF Logistics (Thailand) Limited	Thailand	Ordinary Baht 307,750,000	100	Freight forwarding and other logistics services
	LF Logistics (UK) Limited	England	Ordinary GBP25,050,000	100	Provision of logistics services
	LF Logistics (Vietnam) Company Limited	Vietnam	Charter capital US\$300,000	100	Storage and Warehousing Services
	LF Logistics Holding (Thailand) Limited	Thailand	Ordinary Baht 50,000,000	100	Investment holding
(1)	LF Logistics Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	LF Logistics Holdings (UK) Limited	England	Ordinary GBP1	100	Investment holding
(1)	LF Logistics Japan Limited	Japan	Ordinary JPY10,000,000	100	Provision of logistics services
(1)	LF Logistics Korea Limited	Korea	Common stock KRW300,000,000	100	Provision of freight forwarding and other logistics services
(1)	LF Logistics Limited	Bermuda	Ordinary US\$100	100	Investment holding
	LF Logistics Management Limited	Hong Kong	Ordinary HK\$2	100	Provision of management and consultancy services
(1)	LF Logistics Pakistan (Private) Limited	Pakistan	Ordinary Rs5,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	LF Logistics Services Pte. Ltd.	Singapore	Ordinary S\$28,296,962	100	Provision of freight forwarding, warehousing and distribution services, agency and supply chain management services
(1)	LF Logistics USA LLC	U.S.A.	Capital contribution US\$1	100	Provision of freight forwarding and other logistics services
(1)	LF Men's Group LLC	U.S.A.	Capital contribution US\$1	100	Wholesaling
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
	LF Products (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Provision of management support services
	LF Products (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	LF Products International (Shanghai) Limited	The People's Republic of China	RMB5,000,000	100 foreign-owned enterprise	Export, import and domestics trading
	LF Products Pte. Ltd.	Singapore	Ordinary S\$10,000	100	Export trading
(1)	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US\$1	100	Sourcing and export trading
(1)	LF Sourcing Sportswear LLC	U.S.A.	Capital contribution US\$1	100	Wholesaling
	LFL Management (Thailand) Limited	Thailand	Ordinary Baht 10,000,000	100	Investment holding
	LFL Services (Thailand) Limited	Thailand	Ordinary Baht 2,000,000	100	Investment holding
(1)	Li & Fung (Australia) Proprietary Limited	Australia	Ordinary AU\$1	100	Marketing liaison
	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary TK\$9,500,000	100	Export trading services
(1)	Li & Fung (Brasil) Trading, Importacao E Exportacao Ltda	Brazil	Common shares R\$333,559	100	Service provider
	Li & Fung (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	100	Export trading services
(1)	Li & Fung (Chile) Limitada	Chile	Chilean Pesos \$5,500,000	100	Export trading
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK\$10,000	100	Investment holding
			Non-voting deferred HK\$8,600,000		
(1)	Li & Fung (Guatemala) S.A.	Guatemala	Nominative shares Q5,000	100	Export trading services
(1)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rs64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock KRW200,000,000	100	Export trading services
(1)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rs750,000 "B" Shares Rs500,000	60	Export trading services
(1)	Li & Fung (Morocco) SARL	Morocco	Ordinary Dirhams10,000	100	Export trading services
(1)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C\$50,000	100	Export trading
	Li & Fung (Philippines) Inc.	The Philippines	Common shares Peso 1,000,000	100	Export trading services
(1)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S\$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT\$63,000,000	100	Sourcing and inspection
	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 20,000,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK\$200 Non-voting deferred HK\$10,000,000	100	Export trading services and investment holding
	Li & Fung (Vietnam) Limited	Vietnam	Charter capital US\$800,000	100	Export trading services
	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	EUR99,759.58	100	Export trading services
	Li & Fung Foundation Limited	Hong Kong	–	100	Charity

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	Li & Fung Mexico S.A. de C.V.	Mexico	Nominative common shares MXP150,000	100	Service and import trading
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	YTL45,356,100	100	Export trading services
(1)	Li & Fung Pakistan (Private) Limited	Pakistan	Ordinary Rs10,000,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT\$287,996,000	100	Investment holding
(1)	Li & Fung Trading (Italia) S.r.l.	Italy	EUR100,000	100	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
(1)	Li & Fung Trading Service (Guangzhou) Limited	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US\$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	Li & Fung Trading Services (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM 500,000	100	Sourcing services
	Lighthouse Asia Limited	Hong Kong	Ordinary HK\$10,000	100	Investment holding
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	100	Investment holding
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK\$20	100	Investment holding
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK\$3,000,000	100	Provision of management services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK\$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading services
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK\$1,000,000	100	Manufacturing and trading
	Lornamead Acquisitions Limited	England	Ordinary GBP1,000	100	Investment holding
	Lornamead GmbH	Germany	EUR25,000	100	Manufacturing of perfumes and toilet preparations
	Lornamead Group Limited	England	Ordinary GBP1,000	100	Investment holding
(1)	Lornamead Inc.	U.S.A.	Common stock US\$26,824.8975	100	Wholesaling
	Lornamead UK Limited	England	Ordinary GBP100	100	Manufacturing of perfumes and toilet preparations
(1)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
	Meredith Associates Limited	Hong Kong	Ordinary US\$1,327,932	100	Investment holding

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	Mighty Hurricane Holdings Inc.	U.S.A.	Common stock US\$100	100	Wholesaling
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S\$1	100	Export trading
	Miles Fashion Group France EURL	France	EUR10,000	100	Wholesaling
(1)	Miles Fashion USA, Inc.	U.S.A.	Common stock US\$1,000	100	Importer
	Miles GmbH	Germany	EUR11,000,000	100	Importer
(1)	Millwork Holdings Co., Inc.	U.S.A.	Common stock US\$1	100	Investment holding
	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares YTL2,249,975 B Shares YTL25	100	Manufacturing
	Ningbo Zhicheng Customs Brokerage Co., Ltd.	The People's Republic of China	RMB1,500,000	100	Provision of Customs brokerage services
	P.T. Lifung Indonesia	Indonesia	Ordinary US\$500,000	100	Export trading services
	Paco Trading (International) Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	PATCH Licensing LLC	U.S.A.	Capital contribution US\$1	66.67	Export trading services
	Perfect Trading Inc.	Egypt	LE2,480,000	60	Export trading services
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black Holdings Limited	England	Ordinary GBP0.25	100	Investment holding
	Peter Black International Limited	England	Ordinary GBP0.01	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Phil Henson GmbH	Germany	EUR50,000	100	Importer
	Product Development Partners Limited	Hong Kong	Ordinary HK\$2	100	Export trading
	PromOcean France SAS	France	EUR4,030,303	100	Wholesaling
	PromOcean GmbH	Germany	EUR25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Spain SL	Spain	EUR3,005.06	100	Wholesaling
	PromOcean The Netherlands B.V.	The Netherlands	EUR39,379.5	100	Wholesaling
	PromOcean UK Limited	England	Ordinary GBP1	100	Wholesaling
(1)	PT Direct Sourcing Indonesia	Indonesia	Ordinary US\$250,000	100	Export trading services
(1)	PT. IDS Logistics Indonesia	Indonesia	Ordinary Rp1,820,400,000	100	Provision of logistics services
	PT. LF Beauty Manufacturing Indonesia	Indonesia	Ordinary Rp453,600,000	100	Manufacturing of personal care, household and cosmetic products
(1)	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and other services
(1)	Ralsey Group Ltd.	U.S.A.	Common stock US\$1	100	Wholesaling
(1)	Ratners Enterprises Ltd.	British Virgin Islands	Ordinary US\$1	100	Investment holding

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Held by the Company	Principal Activities
Note	Principal Subsidiaries				
(1)	Region Giant Holdings Limited	British Virgin Islands	Ordinary US\$31	100	Investment holding
	RMS Trading GmbH	Germany	EUR25,000	100	General trading of merchandise
	RT Sourcing (Shenzhen) Limited	The People's Republic of China	HK\$1,000,000	100 foreign-owned enterprise	Export trading services
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US\$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management
(1)	Shenzhen Catalyst Trading Co., Ltd.	The People's Republic of China	US\$120,000	100 foreign-owned enterprise	Security tag trading
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK\$1,100,000 Ordinary "B" HK\$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export trading
	Silverreed (Hong Kong) Limited	Hong Kong	Ordinary HK\$1	100	Export trading
(1)	Simkar 2 Limited	Cayman Islands	Ordinary US\$50,000	100	Investment holding
(1)	Simkar Limited	Cayman Islands	Ordinary US\$49,999.75	100	Investment holding
	Sky Million International Limited	Hong Kong	Ordinary HK\$2	100	Property investment
(1)	STS Shenzhen Testing Service Limited	The People's Republic of China	US\$660,000	100 foreign-owned enterprise	Testing and technology consultation
(1)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
(1)	Texnorte II – Industrias Texteis, Limitada	Portugal	EUR5,000	100	Export trading services
	Texnorte Industrial Limited	Hong Kong	Ordinary HK\$2	100	Export trading
(1)	Toy Island (USA) LLC	U.S.A.	Capital contribution US\$100	100	Marketing
	Uncle Sam Online Vertriebs-und Vermarktungsrechte GmbH	Germany	EUR26,000	100	Wholesaling
	Ventana Bekleidungsfabrikation GmbH	Germany	EUR26,000	100	Wholesaling
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	W S Trading Limited	Hong Kong	Ordinary HK\$1,000,000	100	Export trading
	Whalen Limited	Hong Kong	Ordinary HK\$62,000,000	100	Design and marketing
(1)	Whalen LLC	U.S.A.	Capital contribution US\$1	100	Wholesaling
	Wilson Textile Limited	Hong Kong	Ordinary HK\$1	100	Export trading

41 Principal Subsidiaries, Associated Companies and Joint Venture (continued)**NOTE:**

(1) Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited/reviewed by PricewaterhouseCoopers amounted to less than 5% of the Group's total net assets.

		Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Percentage of Equity Indirectly Held by the Company	Principal Activities
Note	Principal Associated Companies				
	Blue Work Trading Company Limited	Hong Kong	Ordinary HK\$4,000,000	50	Export trading
#	Fireworks Management, Inc.	U.S.A.	Common stock US\$60,000	25	Investment holding
#	Gulf Coast Fireworks Sales, LLC	U.S.A.	Capital contribution US\$3,346,056	30	Fireworks distribution
#	Marshall Fireworks, Inc.	U.S.A.	Common stock US\$10,000	30	Convenience and store
#	Ningbo Penavico-CCL International Freight Forwarding Co., Ltd.	The People's Republic of China	US\$1,000,000	40	Provision of freight forwarders services
#	Winco Fireworks International, LLC	U.S.A.	Capital contribution US\$10,302,419	30	Wholesaling
#	Winco Fireworks Mississippi, LLC	U.S.A.	Capital contribution US\$353,800	30	Wholesaling
#	Winco of Tennessee, LLC	U.S.A.	Capital contribution US\$350,015	30	Fireworks wholesaling and retailing
Note	Principal Joint Venture				
*	Red Sun Company Limited	The People's Republic of China	RMB30,000,000	20	Domestic and export trading

The associated companies are not audited by PricewaterhouseCoopers.

* The joint venture is not audited by PricewaterhouseCoopers.

Although the Group owns less than half of the equity interests in Red Sun Company Limited, it is able to exercise joint control by virtue of an agreement with other investors.

The above table lists out the principal associated companies and joint venture of the Company as at 31 December 2016 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.