Financial Statements

Notes to the Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Continuing Operations			
Turnover	3	**11,413,312**	12,700,744
Cost of sales		**(10,221,721)**	(11,395,406)
Gross profit		**1,191,591**	1,305,338
Other income		**27,745**	36,556
Total margin		**1,219,336**	1,341,894
Selling and distribution expenses		**(384,973)**	(410,243)
Merchandising and administrative expenses		**(606,816)**	(636,516)
Core operating profit	3	**227,547**	295,135
Gain on remeasurement of contingent consideration payable	4	**621**	8,948
Amortization of other intangible assets	4	**(26,534)**	(29,136)
Non-recurring reorganization costs	4	**(46,825)**	(14,991)
Other non-core operating expenses	4	**(6,491)**	(2,656)
Operating profit	3&4	**148,318**	257,300
Interest income		**11,531**	10,608
Finance costs	5		
Cost on early settlement of long-term notes		**(7,640)**	–
Non-cash interest expenses		**(15,302)**	(15,045)
Cash interest expenses		**(66,844)**	(55,433)
		(89,786)	(70,478)
Share of net (losses)/profits of associated companies and joint venture	15 &16	**(36)**	205
Profit before taxation		**70,027**	197,635
Taxation	6	**(15,756)**	(29,855)
Profit for the year from Continuing Operations		**54,271**	167,780
Discontinued Operations			
Loss for the year from Discontinued Operations	32(a)	**–**	(139,142)
Net profit for the year		**54,271**	28,638

	Note	2019 US$'000	2018 US$'000 (Restated)
Attributable to:			
Shareholders of the Company		**16,748**	(13,308)
Holders of perpetual capital securities		**34,125**	46,125
Non-controlling interests		**3,398**	(4,179)
		54,271	28,638
Attributable to Shareholders of the Company arising from:			
Continuing Operations		**16,748**	122,836
Discontinued Operations	32(a)	**–**	(136,144)
		16,748	(13,308)
Earnings/(losses) per share for profit/(losses) attributable to the Shareholders of the Company during the year	7		
– Basic from Continuing Operations		**1.6 HK cents**	11.4 HK cents
(equivalent to)		**0.20 US cents**	1.47 US cents
– Basic from Discontinued Operations		**N/A**	(12.6) HK cents
(equivalent to)		**N/A**	(1.63) US cents
– Diluted from Continuing Operations		**1.6 HK cents**	11.2 HK cents
(equivalent to)		**0.20 US cents**	1.45 US cents
– Diluted from Discontinued Operations		**N/A**	(12.5) HK cents
(equivalent to)		**N/A**	(1.60) US cents

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Net profit for the year		**54,271**	28,638
Other comprehensive income/(expense):			
Item that will not be reclassified subsequently to profit or loss			
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax		**145**	134
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax		**895**	(2,613)
		1,040	(2,479)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences*		**537**	(17,160)
Net fair value (losses)/gains on cash flow hedges, net of tax		**(3,275)**	4,405
Realization of currency translation differences upon disposal of business		**–**	62,685
Reduction of capital reserves upon disposal of business		**–**	(1,452)
Total items that may be reclassified subsequently to profit or loss		**(2,738)**	48,478
Total other comprehensive (expense)/income for the year, net of tax		**(1,698)**	45,999
Total comprehensive income for the year		**52,573**	74,637
Attributable to:			
Shareholders of the Company		**15,347**	32,698
Holders of perpetual capital securities		**34,125**	46,125
Non-controlling interests		**3,101**	(4,186)
Total comprehensive income for the year		**52,573**	74,637
Attributable to the Shareholders of the Company arising from:			
Continuing Operations		**15,347**	153,433
Discontinued Operations	32(a)	**–**	(120,735)
		15,347	32,698

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

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December 2019 US$'000	As at 31 December 2018 US$'000 (Restated)	As at 1 January 2018 US$'000 (Restated)
Non-current assets				
Intangible assets	11	**2,298,948**	2,321,294	2,347,011
Property, plant and equipment	12	**195,876**	201,973	187,943
Right-of-use assets	13	**383,802**	391,970	421,027
Prepaid premium for land leases	14	**15**	16	67
Associated companies	15	**6,274**	5,268	12,393
Joint venture	16	**–**	374	996
Available-for-sale financial assets	17	**–**	–	4,338
Financial assets at fair value through other comprehensive income	17	**2,737**	4,601	–
Other receivables, prepayments and deposits	21	**25,421**	26,663	27,738
Deferred tax assets	30	**26,948**	15,644	20,447
		2,940,021	2,967,803	3,021,960
Current assets				
Inventories	18	**156,644**	205,877	147,803
Due from related companies	19	**613,061**	708,862	463,163
Trade and bills receivable	21	**1,017,189**	1,040,236	1,148,560
Other receivables, prepayments and deposits	21	**140,782**	177,436	147,081
Derivative financial instruments	20	**–**	3,985	–
Cash and bank balances	22	**932,167**	612,391	348,940
		2,859,843	2,748,787	2,255,547
Assets classified as held for sale		**–**	–	1,653,520
Current liabilities				
Due to related companies	19	**8,181**	37,809	124
Derivative financial instruments	20	**314**	–	5,355
Bank advances for discounted bills	21	**–**	–	1,724
Trade and bills payable	23	**1,503,684**	1,736,817	1,733,661
Accrued charges and sundry payables	23	**544,015**	585,897	462,322
Taxation		**20,959**	30,267	43,908
Short-term bank loans	24	**4,906**	272,951	22,970
Current portion of long-term notes	28	**374,361**	–	–
Purchase consideration payable for acquisitions	28	**–**	819	42,166
Lease liabilities	28	**117,437**	129,464	122,992
		2,573,857	2,794,024	2,435,222
Liabilities associated with assets classified as held for sale		**–**	–	479,680
Net current assets/(liabilities)		**285,986**	(45,237)	994,165
Total assets less current liabilities		**3,226,007**	2,922,566	4,016,125

	Note	As at 31 December 2019 US$'000	As at 31 December 2018 US$'000 (Restated)	As at 1 January 2018 US$'000 (Restated)
Financed by:				
Share capital	25	**13,686**	13,633	13,574
Reserves		**1,250,520**	1,188,662	1,721,106
Shareholders' funds attributable to the Company's Shareholders		**1,264,206**	1,202,295	1,734,680
Holders of perpetual capital securities	27	**655,687**	655,687	1,158,687
Written put option on non-controlling interests		**–**	–	(67,000)
Non-controlling interests		**192,893**	(3,150)	74,262
Total equity		**2,112,786**	1,854,832	2,900,629
Non-current liabilities				
Long-term notes	28	**496,893**	751,405	752,432
Purchase consideration payable for acquisitions	28	**4,823**	8,141	19,417
Lease liabilities	28	**298,265**	291,164	320,921
Long-term bank loan	28	**300,000**	1,034	1,558
Other long-term liabilities	28	**1,612**	2,705	2,764
Post-employment benefit obligations	29	**9,633**	11,592	14,165
Deferred tax liabilities	30	**1,995**	1,693	4,239
		1,113,221	1,067,734	1,115,496
		3,226,007	2,922,566	4,016,125

William Fung Kwok Lun
Group Chairman

Spencer Theodore Fung
Group Chief Executive Officer

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2019

	Attributable to Shareholders of the Company							
	Share capital US$'000 (Note 25)	Share premium US$'000	Other reserves US$'000 (Note 26)	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000 (Note 27)	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019, as previously reported	13,633	744,325	53,544	405,390	1,216,892	655,687	(3,150)	1,869,429
Impact of adoption of HKFRS 16	–	–	(198)	(14,399)	(14,597)	–	–	(14,597)
Balance at 1 January 2019, as restated	13,633	744,325	53,346	390,991	1,202,295	655,687	(3,150)	1,854,832
Comprehensive income								
Profit or loss	–	–	–	16,748	16,748	34,125	3,398	54,271
Other comprehensive income/(expense)								
Currency translation differences	–	–	828	–	828	–	(291)	537
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax	–	–	145	–	145	–	–	145
Net fair value losses on cash flow hedges, net of tax	–	–	(3,275)	–	(3,275)	–	–	(3,275)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	901	–	901	–	(6)	895
Total other comprehensive expense, net of tax	–	–	(1,401)	–	(1,401)	–	(297)	(1,698)
Total comprehensive (expense)/income	–	–	(1,401)	16,748	15,347	34,125	3,101	52,573
Transactions with owners in their capacity as owners								
Purchase of shares for Share Award Scheme	–	–	(2,691)	–	(2,691)	–	–	(2,691)
Issuance of shares for Share Award Scheme	53	–	(53)	–	–	–	–	–
Employee Share Option and Share Award Scheme:								
– value of employee services	–	–	13,192	–	13,192	–	120	13,312
– vesting of shares for Share Award Scheme	–	16,429	(15,436)	–	993	–	(993)	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(34,125)	–	(34,125)
Transfer to capital reserve	–	–	577	(577)	–	–	–	–
Disposal of financial assets at fair value through other comprehensive income	–	–	(1,350)	(659)	(2,009)	–	–	(2,009)
2018 final dividend paid	–	–	–	(43,848)	(43,848)	–	–	(43,848)
2019 interim dividend paid	–	–	–	(10,962)	(10,962)	–	–	(10,962)
Acquisition of non-controlling interests	–	–	–	(2,513)	(2,513)	–	663	(1,850)
Partial disposal of ownership interests in a subsidiary (Note 33)	–	–	–	94,402	94,402	–	193,152	287,554
Total transactions with owners in their capacity as owners	53	16,429	(5,761)	35,843	46,564	(34,125)	192,942	205,381
Balance at 31 December 2019	13,686	760,754	46,184	443,582	1,264,206	655,687	192,893	2,112,786

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

	Attributable to Shareholders of the Company								
	Share capital US$'000 (Note 25)	Share premium US$'000	Other reserves US$'000 (Note 26)	Retained earnings US$'000	Total US$'000	Holders of perpetual capital securities US$'000 (Note 27)	Written put option on non-controlling interests US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2018, as previously reported	13,574	728,527	509,577	496,068	1,747,746	1,158,687	(67,000)	74,262	2,913,695
Impact of adoption of HKFRS 16	–	–	(994)	(12,072)	(13,066)	–	–	–	(13,066)
Balance at 1 January 2018, as restated	13,574	728,527	508,583	483,996	1,734,680	1,158,687	(67,000)	74,262	2,900,629
Comprehensive (expense)/income									
Profit or loss	–	–	–	(13,308)	(13,308)	46,125	–	(4,179)	28,638
Other comprehensive (expense)/income									
Currency translation differences	–	–	(17,153)	–	(17,153)	–	–	(7)	(17,160)
Realization of currency translation differences upon disposal of business	–	–	62,685	–	62,685	–	–	–	62,685
Reduction of capital reserves upon disposal of business	–	–	(1,452)	–	(1,452)	–	–	–	(1,452)
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax	–	–	134	–	134	–	–	–	134
Net fair value gains on cash flow hedges, net of tax	–	–	4,405	–	4,405	–	–	–	4,405
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	(2,613)	–	(2,613)	–	–	–	(2,613)
Total other comprehensive income/(expense), net of tax	–	–	46,006	–	46,006	–	–	(7)	45,999
Total comprehensive income/(expense)	–	–	46,006	(13,308)	32,698	46,125	–	(4,186)	74,637
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	–	–	(7,577)	–	(7,577)	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	59	–	(59)	–	–	–	–	–	–
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	16,759	–	16,759	–	–	–	16,759
– vesting of shares for Share Award Scheme	–	15,798	(15,798)	–	–	–	–	–	–
Distribution to holders of perpetual capital securities	–	–	–	–	–	(49,125)	–	–	(49,125)
Redemption of perpetual capital securities	–	–	–	–	–	(500,000)	–	–	(500,000)
Transfer to capital reserve	–	–	24,981	(24,981)	–	–	–	–	–
2017 final dividend paid	–	–	–	(21,830)	(21,830)	–	–	–	(21,830)
2017 special dividend paid	–	–	(519,549)	–	(519,549)	–	–	–	(519,549)
2018 interim dividend paid	–	–	–	(32,886)	(32,886)	–	–	–	(32,886)
Disposal of business	–	–	–	–	–	–	67,000	(73,226)	(6,226)
Total transactions with owners in their capacity as owners	59	15,798	(501,243)	(79,697)	(565,083)	(549,125)	67,000	(73,226)	(1,120,434)
Balance at 31 December 2018	13,633	744,325	53,346	390,991	1,202,295	655,687	–	(3,150)	1,854,832

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000 (Restated)
Continuing Operations			
Operating activities			
Net cash generated from operations	31(a)	**317,102**	411,486
Hong Kong profits tax paid, net of refund		**(1,129)**	(3,600)
Overseas taxation paid		**(35,119)**	(39,715)
Net cash inflow from operating activities		**280,854**	368,171
Investing activities			
Purchases of property, plant and equipment		**(48,072)**	(71,793)
Payments for system development, software, license and other intangible assets		**(24,686)**	(34,134)
Considerations on disposal of business		**–**	1,100,000
Debt released, transaction costs and other closing adjustments for disposal of business*		**–**	(95,073)
Settlement of consideration payable for prior years acquisitions of businesses		**(3,661)**	(42,889)
Proceeds from disposal of property, plant and equipment and prepaid premium for land leases		**1,981**	2,377
Proceeds from disposal of an associated company		**–**	6,992
Interest income		**11,531**	10,608
Dividends received from associated companies	15	**323**	1,416
Additions of associated companies	15	**(986)**	–
Additions of financial assets at fair value through other comprehensive income	17	**–**	(129)
Net cash (outflow)/inflow from investing activities		**(63,570)**	877,375
Net cash inflow before financing activities		**217,284**	1,245,546
Financing activities			
Interest paid	31(b)	**(66,844)**	(55,433)
Net proceeds from partial disposal of ownership interests in a subsidiary		**287,554**	–
Distributions to holders of perpetual capital securities		**(34,125)**	(49,125)
Drawdown of long-term notes	31(b)	**496,737**	–
Repayment of long-term notes	31(b)	**(383,780)**	–
Dividends paid		**(54,810)**	(574,265)
Payment of lease liabilities	31(b)	**(167,027)**	(157,750)
Purchase of shares for Share Award Scheme		**(2,691)**	(7,577)
Redemption of perpetual capital securities		**–**	(500,000)
Net drawdown of bank loans	31(b)	**30,446**	249,981
Acquisition of non-controlling interests		**(1,850)**	–
Net cash inflow/(outflow) from financing activities		**103,610**	(1,094,169)
Increase in cash and cash equivalents from Continuing Operations		**320,894**	151,377

The notes on pages 152 to 243 are an integral part of these consolidated financial statements.

	Note	2019 US$'000	2018 US$'000 (Restated)
Discontinued Operations			
Decrease in cash and cash equivalents from Discontinued Operations	32(f)	**–**	(73,804)
Increase in cash and cash equivalents		**320,894**	77,573
Cash and cash equivalents at 1 January			
Continuing Operations		**612,391**	348,940
Discontinued Operations		**–**	192,578
		612,391	541,518
Increase in cash and cash equivalents		**320,894**	77,573
Effect of foreign exchange rate changes		**(1,118)**	(6,700)
Cash and cash equivalents of Continuing Operations as of 31 December		**932,167**	612,391
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	22	**932,167**	612,391

* The amount is set off by the cash and cash equivalents of Discontinued Operations as the divestment is on a cash free/debt free basis.

Notes to the Financial Statements

1 Basis of Preparation and Principal Accounting Policies

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

1.1 Basis of Preparation

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

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

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

The Group has applied the following new standard, new interpretation and amendments to existing standards for the first time for their annual reporting period commencing 1 January 2019:

HKFRS 16	Leases
HKFRS 9 Amendment	Prepayment Features with Negative Compensation
HKAS 19 Amendment	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Annual Improvement Project	Annual Improvements 2015–2017 Cycle

The application of the above new standard, new interpretation and amendments to existing standards effective in the current year has had no material effect on the Group's reported financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements, except for HKFRS 16 "Leases" which the Group had to change its accounting policies as set out in Note 1.22.

HKFRS 16 Leases

HKFRS 16 Leases addresses the classification, measurement and derecognition of right-of-use assets and lease liabilities related to leases which had previously been classified as "operating leases" under the principle of HKAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate.

In accordance with the transition provisions in HKFRS 16, the new rule has been adopted retrospectively and comparative figures have been restated.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(A) NEW STANDARD, NEW INTERPRETATION AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP (continued)

HKFRS 16 Leases (continued)

The impacts of the adoption of HKFRS 16 are as follows:

Consolidated Profit and Loss Account

	Year ended 31 December 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Continuing Operations			
Operating profit	246,887	10,413	257,300
Non-cash interest expenses	(757)	(14,288)	(15,045)
Discontinued Operations			
Loss for the year from Discontinued Operations	(139,797)	655	(139,142)

Consolidated Balance Sheet

	As at 31 December 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Assets			
Property, plant and equipment	220,264	(18,291)	201,973
Right-of-use assets	–	391,970	391,970
Other receivables, prepayments and deposits	179,549	(2,113)	177,436
Deferred tax assets	11,711	3,933	15,644
Liabilities			
Accrued charges and sundry payables	592,868	(6,971)	585,897
Other long-term liabilities	25,861	(23,156)	2,705
Deferred tax liabilities	2,098	(405)	1,693
Lease liabilities			
— Non-current portion	–	291,164	291,164
— Current portion	–	129,464	129,464
Equity			
Reserves	1,203,259	(14,597)	1,188,662

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

(A) NEW STANDARD, NEW INTERPRETATION AND AMENDMENTS TO EXISTING STANDARDS ADOPTED BY THE GROUP (continued)

HKFRS 16 Leases (continued)

The impacts of the adoption of HKFRS 16 are as follows: (continued)

Consolidated Balance Sheet (continued)

	As at 1 January 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Assets			
Property, plant and equipment	208,221	(20,278)	187,943
Right-of-use assets	–	421,027	421,027
Other receivables, prepayments and deposits	150,252	(3,171)	147,081
Deferred tax assets	17,456	2,991	20,447
Assets classified as held for sale	1,641,065	12,455	1,653,520
Liabilities			
Accrued charges and sundry payables	468,089	(5,767)	462,322
Other long-term liabilities	27,476	(24,712)	2,764
Deferred tax liabilities	4,693	(454)	4,239
Liabilities associated with assets classified as held for sale	466,570	13,110	479,680
Lease liabilities			
— Non-current portion	–	320,921	320,921
— Current portion	–	122,992	122,992
Equity			
Reserves	1,734,172	(13,066)	1,721,106

Consolidated Cash Flow Statement

	Year ended 31 December 2018		
	As previously reported US$'000	HKFRS16 US$'000	Restated US$'000
Continuing Operations			
Net cash inflow from operating activities	210,421	157,750	368,171
Net cash outflow from financing activities	(936,419)	(157,750)	(1,094,169)

1 Basis of Preparation and Principal Accounting Policies (continued)

1.1 Basis of Preparation (continued)

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

The following new standard and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2020 or later periods, but the Group has not early adopted them:

HKAS 1 and HKAS 8 Amendment	Definition of Material[1]
HKFRS 3 Amendment	Definition of Business[1]
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
HKAS 39, HKFRS 7 and HKFRS 9 Amendment	Hedge accounting[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

NOTES:
1 Effective for financial periods beginning on or after 1 January 2020
2 Effective for financial periods beginning on or after 1 January 2021
3 Effective date to be determined

None of these is expected to have a significant effect on the consolidated financial statements of the Group.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2019.

(A) SUBSIDIARIES

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

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

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

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.2 Consolidation (continued)

(C) ASSOCIATED COMPANIES

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

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

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

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

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

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

(D) JOINT VENTURE

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

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

1.3 Segment Reporting

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

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

(B) TRANSACTIONS AND BALANCES

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

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

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

(C) GROUP COMPANIES

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.4 Foreign Currency Translation (continued)

(C) GROUP COMPANIES (continued)

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

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

1.5 Property, Plant and Equipment

(A) LAND AND BUILDINGS

Freehold land is stated at cost less impairment.

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

(B) OTHER PROPERTY, PLANT AND EQUIPMENT

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

(C) DEPRECIATION AND IMPAIRMENT

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

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

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

(D) GAIN OR LOSS ON DISPOSAL

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.6 Intangible Assets

(A) GOODWILL

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

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

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

(B) SYSTEM DEVELOPMENT, SOFTWARE AND OTHER LICENSE COSTS

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

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

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

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

(C) OTHER INTANGIBLE ASSETS

Intangible assets, other than goodwill, identified on business combinations are capitalized at their fair values. They represent mainly trademarks, buying agency agreements secured, and relationships with customers and licensors. Intangible assets arising from business combinations with definite useful lives are amortized on a straight-line basis from the date of acquisition over their estimated useful lives ranging from 2 to 20 years.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.7 Impairment of Investments In Subsidiaries, Associated Companies, Joint Venture and Non-Financial Assets

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

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

1.8 Financial Assets

(I) CLASSIFICATION

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(II) RECOGNITION AND DERECOGNITION

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(III) MEASUREMENT

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.8 Financial Assets (continued)

(III) MEASUREMENT (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss together with foreign exchange gains and losses.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in profit or loss.

(IV) IMPAIRMENT

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and other financial assets carried at amortized cost, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses to be recognized from initial recognition of the receivables. When determining the appropriate level of provision for impairment for individual trade categories, all relevant factors, generally for the Group or specifically for that financial asset category, will be considered. Indicators that there is no reasonable expectation of recovery include, amongst others, debtor insolvency proceedings, the failure of a debtor to make ongoing settlement with the Group, failure to make contractual payments for a period of greater than 365 days past due and failure to agree on a settlement plan. Further detail is set out in Note 38(b).

1 Basis of Preparation and Principal Accounting Policies (continued)

1.9 Inventories

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

1.10 Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

1.11 Share Capital

Ordinary shares are classified as equity.

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

1.12 Cash and Cash Equivalents

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

1.13 Borrowings

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.14 Current and Deferred Tax

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

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

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

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.15 Employee Benefits

(A) EMPLOYEE LEAVE ENTITLEMENTS

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

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

(B) DISCRETIONARY BONUS

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

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

(C) POST-EMPLOYMENT BENEFIT OBLIGATIONS

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

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.15 Employee Benefits (continued)

(D) SHARE-BASED COMPENSATION

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

- including any market performance conditions;

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

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

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

(E) SHARE-BASED PAYMENT TRANSACTIONS AMONG GROUP ENTITIES

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

1.16 Provisions

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.17 Contingent Liabilities and Contingent Assets

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

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

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

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

1.18 Total Margin

Total margin includes gross profit and other recurring income relating to Services segment and Onshore Wholesale business of Product segment.

1.19 Core Operating Profit

Core operating profit is the profit before taxation generated from the Services segment and Onshore Wholesale business of Products segment excluding share of results of associated companies and joint venture, interest income, finance costs, taxation, material gains or losses which are of capital nature or non-operational related and acquisition related cost. This also excludes gain on remeasurement of contingent consideration payable and amortization of other intangible assets, which are non-cash items, and non-recurring reorganization costs and other non-core operating expenses which are non-operational items.

1.20 Revenue Recognition

(A) TURNOVER FROM SALES OF GOODS

Turnover from sales of goods are primarily generated by the Supply Chain Solutions of the Services segment and the Products segment. Supply Chain Solutions provides end-to-end sourcing solutions of goods through the global network to a diverse portfolio of global brands and retail customers, while Products segment focuses on Onshore Wholesale business.

Revenues are recognized when control of the goods has been transferred, being when the goods are delivered to the customers, the customers has full discretion over the channel and price to sell the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the goods have been shipped to the location specified by customer, the risks of obsolescence and loss have been transferred to the customers, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Revenue is shown net of value-added tax, returns, claims and discounts and after eliminating sales within the Group.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.20 Revenue Recognition (continued)

(A) TURNOVER FROM SALES OF GOODS (continued)

The goods are often sold with volume rebate based on aggregate sales over a specific period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume rebate. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume rebate payable to customers in relation to sales made until the end of the reporting period.

A contract liability is also recognized when the customers pay deposits before the Group transfers control of the goods to the customers.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(B) SERVICES FEE FROM LOGISTICS BUSINESS

Logistics business of the Services segment includes in-country logistics and global freight management. In-country logistics business offers logistics services including distribution center management, order management and local transportation. Global freight management offers full services international freight solutions. Service income is recognized in the accounting period in which the provision of services occurs. Customers are invoiced upon the completion of services or on a regular basis.

Some contracts include multiple performance obligations and do not include any integration services. They are therefore accounted for as separate performance obligations. Revenue from each of the performance obligations is recognized at the stand-alone service price.

No element of financing is deemed present as the sales are made with a credit term up to 120 days, which is consistent with market practice.

1.21 Borrowing Costs

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

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

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

1 Basis of Preparation and Principal Accounting Policies (continued)

1.22 Leases

As explained in Note 1.1(A) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 1.1(A).

Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

- *Assets leased to the Group*

  Leases are initially recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortized on a straight-line basis over the shorter of the asset's useful life and the lease term.

  Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

  - fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
  - payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

  The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

  - the amount of the initial measurement of lease liabilities;
  - any lease payments made at or before the commencement date, less any lease incentive received;
  - any initial direct costs; and
  - restoration costs.

  Payments associated with short-term leases and leases of low-value assets are recognized on a straight line basis as an expense in the consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

- *Assets leased out by the Group*

  A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

  Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are amortized in accordance with the Group's amortization policies.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.23 Derivative Financial Instruments and Hedging Activities

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

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 20. Movements in the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(A) CASH FLOW HEDGE

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

The Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset as inventory. When a forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated profit and loss account.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.23 Derivative Financial Instruments and Hedging Activities (continued)

(B) DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

1.24 Trade Payables

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

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

1.25 Dividend Distribution

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

1.26 Treasury Shares

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

1.27 Financial Guarantee Contract

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

1 Basis of Preparation and Principal Accounting Policies (continued)

1.27 Financial Guarantee Contract (continued)

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

1.28 Non-current Assets Held-For-Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (or disposal groups), except for certain assets as explained below, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, and financial assets (other than investments in subsidiaries and associates), which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 1.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the profit and loss account, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets (or disposal groups) constituting the discontinued operation.

1.29 Written Put Option Liabilities

The Discontinued Operations has granted a put option to a non-controlling interest shareholder of a subsidiary for the right to sell its full non-controlling interests to the Discontinued Operations. The Discontinued Operations recognizes the written put option liabilities initially at the present value of the redemption amount, which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired business, and a corresponding debit in equity. The written put option liability is subsequently remeasured at fair value, with changes in measurement recognized in profit and loss.

2 Critical Accounting Estimates and Judgments

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

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

(A) Estimated Impairment of Intangible Assets Including Goodwill

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

(B) Useful Lives of Intangible Assets

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

(C) Income Taxes

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

3 Segment Information

The Company is domiciled in Bermuda. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its Hong Kong office is at 11/F, Li Fung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The Group is principally engaged in managing the supply chain for retailers and brands worldwide with over 230 offices across key production markets globally. Turnover represents revenue generated from sales and services rendered at invoiced value to customers outside the Group less discounts and returns.

The Group divided the business into two segments: Services and Products. The Services segment consists of the Supply Chain Solutions and Logistics businesses. The Products segment consists of the Onshore Wholesale business and the three Product Verticals (furniture, beauty and sweaters) representing its principal-to-principal business.

In 2018, the Group divested the three Product Verticals to further simplify its business and facilitate sharper focus on the core sourcing business. The three Product Verticals are classified as Discontinued Operations and their net results for the year and the comparatives are excluded from the Products segment and presented separately as one-line item below net profit of the Continuing Operations. Further details of financial information of the Discontinued Operations are set out in Note 32 to the financial statements.

The Group's management (Chief Operating Decision-Marker) considers the business of the Continuing Operations principally from the perspective of Services segment and the Products segment with the exclusion of the strategic divestment.

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

3 Segment Information (continued)

	Services US$'000	Products US$'000	Elimination US$'000	Total US$'000
Year ended 31 December 2019				
Turnover	**9,999,701**	**1,439,342**	**(25,731)**	**11,413,312**
Total margin	**955,949**	**263,387**		**1,219,336**
Operating costs	**(771,296)**	**(220,493)**		**(991,789)**
Core operating profit	**184,653**	**42,894**		**227,547**
Gain on remeasurement of contingent consideration payable				**621**
Amortization of other intangible assets				**(26,534)**
Non-recurring reorganization costs				**(46,825)**
Other non-core operating expenses				**(6,491)**
Operating profit				**148,318**
Interest income				**11,531**
Finance costs				
Cost on early settlement of long-term notes				**(7,640)**
Non-cash interest expenses				**(15,302)**
Cash interest expenses				**(66,844)**
				(89,786)
Share of net losses of associated companies and joint venture				**(36)**
Profit before taxation				**70,027**
Taxation				**(15,756)**
Net profit for the year				**54,271**
Depreciation and amortization	**213,658**	**33,233**		**246,891**
31 December 2019				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	**2,199,147**	**711,189**		**2,910,336**

3 Segment Information (continued)

	Services US$'000 (Restated)	Products US$'000 (Restated)	Elimination US$'000	Total US$'000 (Restated)
Year ended 31 December 2018				
Continuing Operations				
Turnover	11,062,332	1,666,702	(28,290)	12,700,744
Total margin	1,036,992	304,902		1,341,894
Operating costs	(796,607)	(250,152)		(1,046,759)
Core operating profit	240,385	54,750		295,135
Gain on remeasurement of contingent consideration payable				8,948
Amortization of other intangible assets				(29,136)
Non-recurring reorganization costs				(14,991)
Other non-core operating expenses				(2,656)
Operating profit				257,300
Interest income				10,608
Finance costs				
Non-cash interest expenses				(15,045)
Cash interest expenses				(55,433)
				(70,478)
Share of net profits of associated companies and joint venture				205
Profit before taxation				197,635
Taxation				(29,855)
Profit for the year from Continuing Operations				167,780
Discontinued Operations				
Loss for the year from Discontinued Operations				(139,142)
Net profit for the year				28,638
Depreciation and amortization (Continuing Operations)	203,264	29,842		233,106
31 December 2018				
Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets)	2,234,467	713,091		2,947,558

3 Segment Information (continued)

Supplementary analysis for the Services segment by Supply Chain Solutions and Logistics Services is as follows:

	2019 US$'000	2018 US$'000
Turnover		
Supply Chain Solutions	**8,834,482**	9,933,108
Logistics Services	**1,173,277**	1,133,374
Elimination	**(8,058)**	(4,150)
	9,999,701	11,062,332

	2019 US$'000	2018 US$'000 (Restated)
Core operating profit		
Supply Chain Solutions	**90,993**	147,667
Logistics Services	**93,660**	92,718
	184,653	240,385

The geographical analysis of turnover to external customers and non-current assets of the Continuing Operations (other than financial assets at fair value through other comprehensive income and deferred tax assets) is as follows:

	Turnover		**Non-current assets (other than financial assets at fair value through other comprehensive income and deferred tax assets) As at 31 December**	
	2019 **US$'000**	2018 US$'000	**2019** **US$'000**	2018 US$'000 (Restated)
United States of America	**7,411,183**	8,373,141	**1,037,602**	1,064,356
Europe	**2,005,078**	2,127,475	**686,182**	664,664
Asia	**1,320,107**	1,391,990	**1,093,485**	1,117,447
Rest of the world	**676,944**	808,138	**93,067**	101,091
	11,413,312	12,700,744	**2,910,336**	2,947,558

3 Segment Information (continued)

Turnover to external customers consists of sales of goods of Supply Chain Solutions business, Logistics Services income and sales of goods of Products Segment as follows:

	2019 US$'000	2018 US$'000
Sales of goods of Supply Chain Solutions business	**8,823,111**	9,916,489
Logistics services income	**1,152,363**	1,118,663
Sales of goods of Products Segment	**1,437,838**	1,665,592
	11,413,312	12,700,744

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

	2019 US$'000	2018 US$'000
Sales of soft goods	**7,498,039**	8,608,996
Sales of hard goods	**2,762,910**	2,973,085
Logistics services income	**1,152,363**	1,118,663
	11,413,312	12,700,744

For the year ended 31 December 2019, approximately 17% of the total turnover of the Group was derived from one external customer, of which 17% and less than 1% were attributable to Services and Products Segments respectively. For the year ended 31 December 2018, approximately 16% and 11% of the total turnover of the Group's Continuing Operations were derived from two external customers, of which 16% and 11% and less than 1% and less than 1% were attributable to Services and Products Segments respectively.

Segment information for the Discontinued Operations is set out in Note 32(b).

4 Operating Profit From Continuing Operations

Operating profit from Continuing Operations is stated after crediting and charging the following:

	2019 US$'000	2018 US$'000 (Restated)
Crediting		
Gain on remeasurement of contingent consideration payable*	**621**	8,948
Gain on disposals and modifications of right-of-use assets	**591**	180
Net exchange gains	**4,736**	6,838
Charging		
Cost of inventories sold	**10,221,721**	11,395,406
Non-recurring reorganization costs*	**46,825**	14,991
Other non-core operating expenses*	**6,491**	2,656
Depreciation of property, plant and equipment (Note 12)	**50,467**	46,250
Loss on disposal of property, plant and equipment and prepaid premium for land leases	**1,113**	3,663
Loss on disposal of software	**93**	300
Increase in provision for impairment of trade and other receivables, net (Note 21)	**14,135**	37,353
Amortization of system development, software and other license costs (Note 11)	**14,969**	8,247
Amortization of other intangible assets (Note 11)*	**26,534**	29,136
Amortization of prepaid premium for land leases (Note 14)	**1**	1
Amortization of right-of-use assets (Note 13)	**154,920**	149,472
Staff costs including directors' emoluments (Note 9) **	**653,810**	710,939

* Excluded from the core operating profit

** Including staff costs incurred as cost of inventories sold and non-recurring reorganization costs

4 Operating Profit From Continuing Operations (continued)

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

	2019 US$'000	2018 US$'000
Audit services	**2,710**	3,276
Non-audit services		
– taxation services	**1,210**	1,295
– others	**591**	2,099
Total remuneration to auditors charged to consolidated profit and loss account	**4,511**	6,670

NOTE:
Of the above audit and non-audit services fees, US$2,576,000 (2018: US$3,068,000) and US$1,801,000 (2018: US$3,056,000), respectively are payable to the Company's auditor.

5 Finance Costs

	2019 US$'000	2018 US$'000 (Restated)
Cost on early settlement of long-term notes	**7,640**	–
Non-cash interest expenses on purchase consideration payable for acquisitions, long-term notes and lease liabilities	**15,302**	15,045
Cash interest on bank loans, overdrafts and long-term notes	**66,844**	55,433
	89,786	70,478

6 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2019 US$'000	2018 US$'000 (Restated)
Current taxation		
– Hong Kong profits tax	**2,663**	3,850
– Overseas taxation	**31,375**	32,670
Over provision in prior years	**(7,098)**	(6,153)
Deferred taxation (Note 30)	**(11,184)**	(512)
	15,756	29,855

6 Taxation (continued)

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

	2019 %	2018 % (Restated)
Calculated at a taxation rate of	**16.5**	16.5
Effect of different taxation rates in other countries	**(3.4)**	(9.0)
Expenses net of income not subject to taxation	**13.0**	1.3
Over provision in prior years	**(10.1)**	(0.5)
Utilization of previously unrecognized tax losses	**(1.5)**	(0.3)
Unrecognized tax losses	**8.0**	7.1
Effective tax rate	**22.5**	15.1

7 Earnings/(Losses) Per Share

The calculation of basic earnings/(losses) per share is based on the Group's profit attributable to Shareholders of US$16,748,000 (2018 (Restated): based on the Group's profit attributable to Shareholders arising from the Continuing Operations of US$122,836,000 and the Group's losses attributable to Shareholders arising from the Discontinued Operations of US$136,144,000) and on the weighted average number of 8,389,268,000 (2018: 8,369,665,000) shares in issue during the year.

The diluted earnings/(losses) per share was calculated by adjusting the weighted average number of 8,389,268,000 (2018: 8,369,665,000) ordinary shares in issue by 120,951,000 (2018: 113,438,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's Share Option and Share Award Scheme. For the determination of dilutive potential ordinary share granted under the Company, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding Share Options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Share Options and vesting of Award Shares.

8 Dividends

	2019 US$'000	2018 US$'000
Interim, paid, of HK$0.01 (equivalent to US$0.001) (2018: HK$0.03 (equivalent to US$0.004)) per ordinary share	**10,962**	32,886
Final, proposed, of HK$Nil (equivalent to US$Nil) (2018: HK$0.04 (equivalent to US$0.005)) per ordinary share (Note)	**–**	43,848
	10,962	76,734

NOTE:
At a meeting held on 20 March 2020, the Directors do not recommend a final dividend.

9 Staff Costs Including Directors' Emoluments

	2019 US$'000	2018 US$'000
Salaries and bonuses	**559,010**	609,653
Staff benefits	**34,421**	33,663
Pension costs of defined contribution plans (Note (a))	**46,197**	51,903
Employee share option and share award expenses	**12,010**	13,744
Pension costs of defined benefit plans (Note 29(ii))	**1,818**	1,682
Long-service payments	**354**	294
	653,810	710,939

NOTES:

(a) Forfeited contributions totalling US$55,000 (2018: US$48,000) were utilized during the year and no remaining amount was available at the year-end to reduce future contributions.

(b) Staff costs of the Continuing Operations amounted to US$342,536,000 (2018: US$432,694,000), US$96,471,000 (2018: US$116,728,000), US$190,791,000 (2018: US$161,517,000) and US$24,012,000 (2018: Nil) have been expensed in merchandising and administrative expenses, selling and distribution expenses, cost of sales and non-recurring reorganization costs respectively.

10 Directors' and Senior Management's Emoluments

(a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: four) Directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining three individuals (2018: one individual) during the year are as follows:

	2019 US$'000	2018 US$'000
Basic salaries, housing allowances, share awards, other allowances and benefits-in-kind	**1,888**	809
Discretionary bonuses	**2,282**	378
Contributions to pension scheme	**8**	2
	4,178	1,189

Emolument bands	**Number of individuals** **2019**	2018
Below US$1,154,000 (Below HK$9,000,000)	**1**	–
US$1,154,000 — US$1,218,000 (HK$9,000,001 — HK$9,500,000)	**–**	1
US$1,218,001 — US$1,283,000 (HK$9,500,001 — HK$10,000,000)	**1**	–
US$1,922,001 — US$1,986,000 (HK$15,000,001 — HK$15,500,000)	**1**	–

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

(b) Senior Management's Emoluments

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

Emolument bands	**Number of individuals** **2019**	2018
Below US$1,000,000	**7**	7
US$1,000,001 — US$1,500,000	**1**	3
US$1,500,001 — US$2,000,000	**1**	–

11 Intangible Assets

	Goodwill US$'000	System development, software and other license costs US$'000	Other intangible assets: Buying agency agreements US$'000	Other intangible assets: Customer relationships US$'000	Other intangible assets: Patents, trademarks and brandnames US$'000	Others US$'000	Total US$'000
At 1 January 2019							
Cost	2,145,925	79,908	67,867	194,664	25,334	11,941	2,525,639
Accumulated amortization	–	(29,461)	(46,455)	(108,495)	(16,013)	(3,921)	(204,345)
Net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
Year ended 31 December 2019							
Opening net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
Exchange differences	4,933	(277)	–	267	(37)	–	4,886
Additions	–	24,686	–	–	–	–	24,686
Amortization (Note 4)	–	(14,969)	(9,005)	(13,244)	(3,509)	(776)	(41,503)
Write off	–	(10,322)	–	–	–	–	(10,322)
Disposal	–	(93)	–	–	–	–	(93)
Closing net book amount	2,150,858	49,472	12,407	73,192	5,775	7,244	2,298,948
At 31 December 2019							
Cost	2,150,858	94,521	67,867	195,394	25,249	11,941	2,545,830
Accumulated amortization	–	(45,049)	(55,460)	(122,202)	(19,474)	(4,697)	(246,882)
Net book amount	2,150,858	49,472	12,407	73,192	5,775	7,244	2,298,948

11 Intangible Assets (continued)

			Other intangible assets				
	Goodwill US$'000	System development, software and other license costs US$'000	Buying agency agreements US$'000	Customer relationships US$'000	Patents, trademarks and brandnames US$'000	Others US$'000	Total US$'000
At 1 January 2018							
Cost	2,168,078	49,629	67,867	196,363	25,528	11,940	2,519,405
Accumulated amortization	–	(25,591)	(34,961)	(96,128)	(12,570)	(3,144)	(172,394)
Net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Year ended 31 December 2018							
Opening net book amount	2,168,078	24,038	32,906	100,235	12,958	8,796	2,347,011
Continuing Operations							
Exchange differences	(22,153)	(635)	–	(732)	(105)	–	(23,625)
Additions	–	35,591	–	–	–	–	35,591
Amortization (Note 4)	–	(8,247)	(11,494)	(13,334)	(3,532)	(776)	(37,383)
Disposal	–	(300)	–	–	–	–	(300)
Closing net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294
At 31 December 2018							
Cost	2,145,925	79,908	67,867	194,664	25,334	11,941	2,525,639
Accumulated amortization	–	(29,461)	(46,455)	(108,495)	(16,013)	(3,921)	(204,345)
Net book amount	2,145,925	50,447	21,412	86,169	9,321	8,020	2,321,294

Amortization of system development, software and other license costs for the Continuing Operations of US$9,500,000 (2018: US$5,945,000) and US$5,469,000 (2018: US$2,302,000) have been expensed in merchandising and administrative expenses and selling and distribution expenses respectively.

11 Intangible Assets (continued)

Impairment Test for Goodwill

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

A summary of goodwill by reporting segment is presented below.

	As at 31 December	
	2019	2018
	US$'000	US$'000
Services	**1,531,258**	1,529,817
Products	**619,600**	616,108
	2,150,858	2,145,925

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

12 Property, Plant and Equipment

	Land and buildings US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Motor vehicles and company boat US$'000	Total US$'000
At 1 January 2019 (Restated)						
Cost	969	158,892	102,508	99,848	2,712	364,929
Accumulated depreciation	(21)	(100,450)	(37,164)	(24,110)	(1,211)	(162,956)
Net book amount	948	58,442	65,344	75,738	1,501	201,973
Year ended 31 December 2019						
Opening net book amount, as previously reported	948	58,442	65,344	94,029	1,501	220,264
Impact of adoption of HKFRS 16	–	–	–	(18,291)	–	(18,291)
Opening net book amount, as restated	948	58,442	65,344	75,738	1,501	201,973
Exchange differences	(19)	(3)	(280)	(287)	(19)	(608)
Additions	–	6,420	20,021	20,289	1,342	48,072
Disposals	(797)	(1,692)	(526)	–	(79)	(3,094)
Depreciation (Note 4)	(27)	(15,403)	(19,159)	(15,001)	(877)	(50,467)
Closing net book amount	105	47,764	65,400	80,739	1,868	195,876
At 31 December 2019						
Cost	451	158,956	113,961	115,182	2,389	390,939
Accumulated depreciation	(346)	(111,192)	(48,561)	(34,443)	(521)	(195,063)
Net book amount	105	47,764	65,400	80,739	1,868	195,876

12 Property, Plant and Equipment (continued)

	Land and buildings US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Plant and machinery US$'000	Motor vehicles and company boat US$'000	Total US$'000
At 1 January 2018 (Restated)						
Cost	1,214	154,940	102,129	81,731	4,394	344,408
Accumulated depreciation	(16)	(99,891)	(35,679)	(19,202)	(1,677)	(156,465)
Net book amount	1,198	55,049	66,450	62,529	2,717	187,943
Year ended 31 December 2018 (Restated)						
Opening net book amount, as previously reported	1,198	55,049	66,450	82,807	2,717	208,221
Impact of adoption of HKFRS 16	–	–	–	(20,278)	–	(20,278)
Opening net book amount, as restated	1,198	55,049	66,450	62,529	2,717	187,943
Continuing Operations						
Exchange differences	(57)	(1,611)	(2,457)	(1,372)	(25)	(5,522)
Additions	–	20,967	21,541	29,174	111	71,793
Disposals	(129)	(55)	(2,951)	(2,696)	(160)	(5,991)
Depreciation (Note 4)	(64)	(15,908)	(17,239)	(11,897)	(1,142)	(46,250)
Closing net book amount	948	58,442	65,344	75,738	1,501	201,973
At 31 December 2018 (Restated)						
Cost	969	158,892	102,508	99,848	2,712	364,929
Accumulated depreciation	(21)	(100,450)	(37,164)	(24,110)	(1,211)	(162,956)
Net book amount	948	58,442	65,344	75,738	1,501	201,973

Depreciation for the Continuing Operations of US$23,469,000 (2018: US$21,900,000), US$26,998,000 (2018: US$24,343,000) has been expensed in merchandising and administrative expenses, selling and distribution expenses respectively. No depreciation has been expensed in cost of sales (2018: US$7,000).

At 31 December 2019 and 2018, the Group had no land and buildings pledged as security for bank borrowings.

13 Right-of-use Assets

	Land and buildings US$'000	Equipment and others US$'000	Total US$'000
At 1 January 2019			
Cost	**722,780**	**13,135**	**735,915**
Accumulated amortization	**(338,484)**	**(5,461)**	**(343,945)**
Net book amount	**384,296**	**7,674**	**391,970**
Year ended 31 December 2019			
Opening net book amount	**384,296**	**7,674**	**391,970**
Exchange differences	**2,193**	**239**	**2,432**
Additions	**153,650**	**4,176**	**157,826**
Disposals and modifications	**(13,473)**	**(33)**	**(13,506)**
Amortization (Note 4)	**(150,809)**	**(4,111)**	**(154,920)**
Closing net book amount	**375,857**	**7,945**	**383,802**
At 31 December 2019			
Cost	**743,377**	**17,236**	**760,613**
Accumulated amortization	**(367,520)**	**(9,291)**	**(376,811)**
Net book amount	**375,857**	**7,945**	**383,802**
At 1 January 2018			
Cost	705,949	13,578	719,527
Accumulated amortization	(292,882)	(5,618)	(298,500)
Net book amount	413,067	7,960	421,027
Year ended 31 December 2018			
Opening net book amount	413,067	7,960	421,027
Exchange differences	(10,540)	(91)	(10,631)
Additions	131,792	4,503	136,295
Disposals and modifications	(5,053)	(196)	(5,249)
Amortization (Note 4)	(144,970)	(4,502)	(149,472)
Closing net book amount	384,296	7,674	391,970
At 31 December 2018			
Cost	722,780	13,135	735,915
Accumulated amortization	(338,484)	(5,461)	(343,945)
Net book amount	384,296	7,674	391,970

14 Prepaid Premium for Land Leases

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

	2019 US$'000	2018 US$'000
Beginning of the year	**16**	67
Disposals	**–**	(49)
Amortization (Note 4)	**(1)**	(1)
Exchange differences	**–**	(1)
End of the year	**15**	16

Amortization of US$1,000 (2018: US$1,000) has been expensed in selling and distribution expenses.

15 Associated Companies

	2019 US$'000	2018 US$'000
Beginning of the year	**5,268**	12,393
Share of net profits of associated companies	**338**	873
Additions	**986**	–
Disposals	**–**	(6,992)
Dividends received	**(323)**	(1,416)
Exchange differences	**5**	410
Total interests in associated companies	**6,274**	5,268

Details of principal associated companies are set out in Note 45.

16 Joint Venture

	2019 US$'000	2018 US$'000
Beginning of the year	**374**	996
Share of loss of the joint venture	**(374)**	(668)
Exchange differences	**–**	46
Total interest in the joint venture	**–**	374

Details of the joint venture is set out in Note 45.

17 Financial Assets at Fair Value Through Other Comprehensive Income

	2019 US$'000	2018 US$'000
Reclassified from available-for-sale financial assets upon adoption of HKFRS 9	**–**	4,338
Beginning of the year	**4,601**	–
Additions	**–**	129
Disposal	**(2,009)**	–
Fair value gains, net of tax (Note 26)	**145**	134
End of the year	**2,737**	4,601

Financial assets at fair value through other comprehensive income are club debentures (Note 40) and denominated in HK dollar.

18 Inventories

	2019 US$'000	2018 US$'000
Finished goods	**151,174**	200,486
Raw materials	**5,470**	5,391
	156,644	205,877

19 Due from/(to) Related Companies

	2019 US$'000	2018 US$'000
Trade		
Due from:		
Associated companies	**57**	58
Other related companies (Note (a)&(b))	**539,876**	633,697
	539,933	633,755
Non-trade (Note (c))		
Due from:		
Associated companies	**–**	342
Other related companies	**73,128**	74,765
	73,128	75,107
	613,061	708,862
Due to:		
Other related companies	**(8,181)**	(37,809)

19 Due from/(to) Related Companies (continued)

NOTES:

(a) Taking into consideration of and the continuous settlements received every month and the absence of track record of defaults, management consider there is no indication on the overdue amount due from related companies are unrecoverable, management has considered that no provision is required as of 31 December 2019.

The ageing of the trade amount due from other related companies based on due date is as follows:

	2019 **US$'000**	2018 US$'000
Not yet due to 90 days	**250,537**	537,691
91 to 180 days	**147,946**	80,826
181 to 365 days	**141,393**	15,180
	539,876	633,697

(b) As at 31 December 2018, this item included an amount due from Global Brands Group of which approximately US$154 million was arisen from purchases made by Global Brands Group on behalf of its divested business sold to an independent third party who makes purchase orders through Global Brands Group as part of the transitional arrangement.

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

20 Derivative Financial Instruments

	2019 **US$'000**	2018 US$'000
Foreign exchange forward contracts		
– (liabilities)/assets	**(314)**	3,985

Gain in equity of US$1,356,000 (2018: US$4,631,000) on foreign exchange forward contracts as of 31 December 2019 will be released to the consolidated profit and loss account at various dates between one month to one year from the balance sheet date (Note 26).

For the years ended 31 December 2019 and 2018, no material amounts were recognized in the consolidated profit and loss account arising from ineffective cash flow hedges.

21 Trade and Other Receivables

	2019 **US$'000**	2018 US$'000 (Restated)
Trade and bills receivable — net	**1,017,189**	1,040,236
Other receivables, prepayments and deposits	**166,203**	204,099
	1,183,392	1,244,335
Less: non-current portion other receivables, prepayments and deposits	**(25,421)**	(26,663)
	1,157,971	1,217,672

21 Trade and Other Receivables (continued)

The fair values of the Group's trade and other receivables were approximately the same as their carrying values as at 31 December 2019.

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

	2019 US$'000	2018 US$'000
Up to 90 days	**918,412**	905,138
91 to 180 days	**77,014**	97,862
181 to 360 days	**12,485**	18,625
Over 360 days	**9,278**	18,611
	1,017,189	1,040,236

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

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Lifetime expected losses are determined based on track records of settlements, taking into account payment arrangements, such as standby letters of credit, bank guarantees, credit insurance covered, back-to-back arrangement with suppliers.

As of 31 December 2019, trade receivables of US$991,834,000 (31 December 2018: US$1,003,693,000) that were not yet due or less than 90 days past due were not considered unrecoverable. Trade receivables of US$25,355,000 (31 December 2018: US$36,543,000) were past due over 90 days. These mainly relate to a number of independent customers for whom there is no recent history of default. Therefore, the lifetime expected losses ratios applied by the Group are considered an appropriate indication of the credit risks associated with trade receivables.

The ageing of these trade receivables is as follows:

	2019 US$'000	2018 US$'000
Not yet due to 90 days	**991,834**	1,003,693
91 to 180 days	**5,351**	10,474
Over 180 days	**20,004**	26,069
	1,017,189	1,040,236

21 Trade and Other Receivables (continued)

As of 31 December 2019, outstanding trade receivables of US$11,317,000 (31 December 2018: US$49,040,000) and other receivables of US$533,000 (31 December 2018: US$2,240,000) were considered impaired and were fully provided for.

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

	2019 US$'000	2018 US$'000
As at 1 January	**51,280**	15,080
Increase in provision for impairment (Note 4)	**15,023**	37,508
Receivables written off	**(53,725)**	(814)
Reversal of provision for impairment (Note 4)	**(888)**	(155)
Exchange difference	**160**	(339)
As at 31 December	**11,850**	51,280

Increase and reversal of provision for impairment for trade and other receivables have been included in "Selling and distribution expenses" in the consolidated profit and loss account (Note 4). Amounts charged to the provision for impairment account are generally written off, when there is no expectation of recovering additional cash.

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

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

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

	2019 US$'000	2018 US$'000 (Restated)
US dollar	**815,732**	780,099
HK dollar	**26,329**	99,841
Euro	**54,560**	75,562
Pound sterling	**11,924**	15,085
Renminbi	**95,042**	100,252
Philippine Peso	**38,538**	43,814
Thailand Baht	**23,706**	22,800
Others	**92,140**	80,219
	1,157,971	1,217,672

The Group has recognized return assets in relation to expected refunds from customers amounting to US$7,659,000 (31 December 2018: US$9,248,000).

22 Cash and Cash Equivalents

	2019 US$'000	2018 US$'000
Cash and bank balances	**932,167**	612,391

The effective interest rate at the balance sheet date on bank balances was 1.1% (2018: 0.9%) per annum; these deposits have an average maturity period of 6 days (2018: 4 days).

23 Trade and Other Payables

	2019 US$'000	2018 US$'000 (Restated)
Trade and bills payable	**1,503,684**	1,736,817
Accrued charges and sundry payables	**544,015**	585,897
	2,047,699	2,322,714

The fair values of the Group's trade and other payables were approximately the same as their carrying values as at 31 December 2019.

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

	2019 US$'000	2018 US$'000
Up to 90 days	**1,395,884**	1,592,934
91 to 180 days	**94,597**	109,264
181 to 360 days	**7,236**	18,072
Over 360 days	**5,967**	16,547
	1,503,684	1,736,817

The Group has recognized revenue related refund liabilities amounting to US$31,462,000 (31 December 2018: US$48,242,000) and has not recognized revenue related contract liabilities as at 31 December 2019 (31 December 2018: US$16,722,000).

24 Bank Borrowings

	2019 US$'000	2018 US$'000
Long-term bank loan		
— Unsecured (Note 28)	**300,000**	1,034
Short-term bank loans		
— Unsecured	**4,906**	272,951
Total bank borrowings	**304,906**	273,985

The fair values of the Group's borrowings were approximately the same as their carrying values as at 31 December 2019.

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

	2019		2018			
	INR	USD	PHP	IDR	USD	Others
Long-term bank loan	**–**	**2.6%**	–	–	–	10.0%
Short-term bank loans	**8.5%**	**–**	5.8%	8.6%	3.0%	5.1%

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

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

	2019 US$'000	2018 US$'000
US dollar	**300,000**	250,000
Philippine Peso	**–**	12,427
Indonesian Rupiah	**–**	6,141
Others	**4,906**	5,417
	304,906	273,985

25 Share Capital, Share Options and Award Shares

	No. of shares (in thousand)	HK$'000	Equivalent US$'000
Authorized			
At 1 January 2018, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 31 December 2018, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 1 January 2019, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
At 31 December 2019, ordinary shares of HK$0.0125 each	12,000,000	150,000	19,231
Issued and fully paid			
At 1 January 2018, ordinary shares of HK$0.0125 each	8,469,956	105,874	13,574
Issue of new Shares of HK$0.0125 each pursuant to Share Award Scheme [1]	36,630	458	59
At 31 December 2018, ordinary shares of HK$0.0125 each	8,506,586	106,332	13,633
At 1 January 2019, ordinary shares of HK$0.0125 each	8,506,586	106,332	13,633
Issue of new Shares of HK$0.0125 each pursuant to Share Award Scheme [2]	32,341	404	53
At 31 December 2019, ordinary shares of HK$0.0125 each	8,538,927	106,736	13,686

NOTES:

(1) The closing market price per Share on the date of issue of new share on 23 August 2018 was HK$2.51 per Share.

(2) The closing market price per Share on the date of issue of new share on 21 November 2019 was HK$0.86 per Share.

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

Details of Share Options granted by the Company pursuant to the 2003 Option Scheme and 2014 Option Scheme and outstanding at 31 December 2019 are as follows:

			Number of Share Options		
Grant Date	**Exercise Price HK$**	**Exercisable period**	**As at 1/1/2019**	**Lapsed**	**As at 31/12/2019**
22/12/2011	12.12[1]	1/5/2017–30/4/2019	2,000,000	(2,000,000)	–
22/12/2011	12.12[1]	1/5/2018–30/4/2020	2,000,000	–	2,000,000
22/12/2011	12.12[1]	1/5/2019–30/4/2021	2,000,000	–	2,000,000
22/12/2011	12.12[1]	1/5/2020–30/4/2022	2,000,000	–	2,000,000
22/12/2011	12.12[1]	1/5/2021–30/4/2023	2,000,000	–	2,000,000
21/5/2015	7.49	1/1/2017–31/12/2018	27,093,000	(27,093,000)	–
21/5/2015	7.49	1/1/2018–31/12/2019	27,244,000	(1,208,000)	26,036,000
16/11/2015	5.81	1/1/2017–31/12/2018	285,000	(285,000)	–
16/11/2015	5.81	1/1/2018–31/12/2019	604,000	–	604,000
19/05/2016	4.27	1/1/2018–31/12/2019	604,000	–	604,000
13/07/2017	2.86	1/1/2018–31/12/2019	125,000	–	125,000
		Total	65,955,000	(30,586,000)	35,369,000

NOTE:

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

Subsequent to 31 December 2019, no shares have been allotted and issued under the Share Option Schemes.

The Share Options outstanding at 31 December 2019 had a weighted average remaining contractual life of 0.41 years (2018: 0.79 years).

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

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

Date of grant	**22/12/2011**	**21/5/2015**	**16/11/2015**	**19/05/2016**	**13/07/2017**
Option value	US$0.53 - US$0.77	US$0.13 - US$0.17	US$0.10 - US$0.11	US$0.08	US$0.05
Share price at date of grant	HK$14.14	HK$7.49	HK$5.33	HK$4.27	HK$2.83
Exercisable price	HK$12.12 (Note (i))	HK$7.49	HK$5.81	HK$4.27	HK$2.86
Standard deviation	49%	33%	31%	31%	35%
Annual risk-free interest rate	0.15%-1.35%	0.08%-1.22%	0.08%-1.25%	0.53%-0.84%	0.53%-0.84%
Life of options	5 – 12 years	2 – 5 years	3 – 5 years	3 – 4 years	2 – 4 years
Dividend yield	2.39%	4.06%	4.06%	4.33%	6.36%

NOTE:

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

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

Details of Award Shares granted by the Company pursuant to the Share Award Scheme and outstanding at 31 December 2019 are as follows:

			Number of Award Shares				
Grant Date	**Fair Value per Share HK$**	**Vesting Date**	**As at 1/1/2019**	**Granted**	**Vested**	**Unvested/ forfeited**	**As at 31/12/2019**
21/5/2015	7.49	31/12/2019	5,052,200	–	(4,453,400)[2]	(598,800)	–
16/11/2015	5.33	31/12/2019	165,200	–	(141,300)[2]	(23,900)	–
19/5/2016	4.27	31/12/2019	273,700	–	(223,600)[2]	(50,100)	–
14/11/2016	3.53	31/12/2019	53,700	–	(48,100)[2]	(5,600)	–
13/7/2017	2.83	31/12/2019	19,261,800	–	(17,259,800)[2]	(2,002,000)	–
13/7/2017	2.83	31/12/2020	19,251,000	–	(99,000)[2]	(2,002,000)	17,150,000
23/3/2018	3.87	31/12/2019	2,506,000	–	(2,476,000)[2]	(30,000)	–
23/3/2018	3.87	31/12/2020	2,506,000	–	(6,000)[2]	(30,000)	2,470,000
23/8/2018	2.51	31/12/2019	20,581,600	–	(18,383,000)[2]	(2,198,600)	–
23/8/2018	2.51	31/12/2020	20,501,500	–	(57,600)[2]	(2,184,700)	18,259,200
23/8/2018	2.51	31/12/2021	20,490,300	–	(57,600)[2]	(2,184,700)	18,248,000
21/11/2019	0.86	31/12/2019	–	1,206,400	(1,206,400)	–	–
21/11/2019	0.86	31/12/2020	–	23,415,600	–	(90,000)	23,325,600
21/11/2019	0.86	31/12/2021	–	23,404,900	–	(90,000)	23,314,900
21/11/2019	0.86	31/12/2022	–	22,202,100	–	(90,000)	22,112,100
		Total	110,643,000	70,229,000	(44,411,800)	(11,580,400)	124,879,800

NOTES:

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

(2) The vesting of certain Award Shares has been accelerated which was approved by the Remuneration Committee on 21 November 2019.

During the year, a total of 70,229,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 22,711,000 Award Shares were awarded to connected persons.15,177,100 Shares held by the trustee of the Share Award Scheme had been applied to satisfy awards to non-connected persons in accordance with the terms of the Share Award Scheme. The remaining 32,340,900 new Shares were allotted and issued by the Company to satisfy awards to non-connected persons and 22,711,000 Award Shares were purchased from the open market to satisfy awards to connected persons pursuant to the terms of the Share Award Scheme.

26 Reserves

	Treasury shares US$'000 (Note (iii))	Capital reserve US$'000 (Note (i))	Contribution surplus US$'000 (Note (ii))	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2019 as previously reported	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(207,821)	53,544
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(198)	(198)
Balance at 1 January 2019, as restated	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(208,019)	53,346
Other comprehensive income/(expense)									
Currency translation differences	–	–	–	–	–	–	–	828	828
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax (Note 17)	–	–	–	–	145	–	–	–	145
Net fair value losses on cash flow hedges, net of tax	–	–	–	–	–	(3,275)	–	–	(3,275)
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	–	–	–	–	901	–	901
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(2,691)	–	–	–	–	–	–	–	(2,691)
Issuance of shares for Share Award Scheme	(53)	–	–	–	–	–	–	–	(53)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	13,192	–	–	–	–	13,192
– vesting of shares for Share Award Scheme	1,897	–	–	(17,333)	–	–	–	–	(15,436)
Transfer to capital reserve	–	577	–	–	–	–	–	–	577
Disposal of financial assets at fair value through other comprehensive income	–	–	–	–	(1,350)	–	–	–	(1,350)
Balance at 31 December 2019	(16,596)	31,752	190,451	59,980	2,258	1,356	(15,826)	(207,191)	46,184

26 Reserves (continued)

	Treasury shares US$'000 (Note (iii))	Capital reserve US$'000 (Note (i))	Contribution surplus US$'000 (Note (ii))	Employee share-based compensation reserve US$'000	Revaluation reserve US$'000	Hedging reserve US$'000	Defined benefit obligation reserve US$'000	Exchange reserve US$'000	Total US$'000
Balance at 1 January 2018 as previously reported	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(252,557)	509,577
Impact of adoption of HKFRS 16	–	–	–	–	–	–	–	(994)	(994)
Balance at 1 January 2018, as restated	(10,996)	7,646	710,000	66,043	3,329	226	(14,114)	(253,551)	508,583
Other comprehensive (expense)/income									
Currency translation differences	–	–	–	–	–	–	–	(17,153)	(17,153)
Realization of currency translation differences upon disposal of business	–	–	–	–	–	–	–	62,685	62,685
Reduction of capital reserves upon disposal of business	–	(1,452)	–	–	–	–	–	–	(1,452)
Net fair value gains on financial assets at fair value through other comprehensive income, net of tax (Note 17)	–	–	–	–	134	–	–	–	134
Net fair value gains on cash flow hedges, net of tax	–	–	–	–	–	4,405	–	–	4,405
Remeasurement of post-employment benefit obligations recognized in reserve, net of tax	–	–	–	–	–	–	(2,613)	–	(2,613)
Transactions with owners in their capacity as owners									
Purchase of shares for Share Award Scheme	(7,577)	–	–	–	–	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	(59)	–	–	–	–	–	–	–	(59)
Employee Share Option and Share Award Scheme:									
– value of employee services	–	–	–	16,759	–	–	–	–	16,759
– vesting of shares for Share Award Scheme	2,883	–	–	(18,681)	–	–	–	–	(15,798)
Transfer to capital reserve	–	24,981	–	–	–	–	–	–	24,981
2017 special dividend paid	–	–	(519,549)	–	–	–	–	–	(519,549)
Balance at 31 December 2018	(15,749)	31,175	190,451	64,121	3,463	4,631	(16,727)	(208,019)	53,346

NOTES:

(i) Capital reserve represents amount set aside from the profit of certain overseas subsidiaries of the Group in accordance with local statutory requirements.

(ii) Contribution surplus arises from the transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000 in prior years and the distribution of a special dividend of US$519,549,000 in 2018.

(iii) Treasury shares represent shares issued and purchased for Share Award Scheme held by the escrow agent.

27 Perpetual Capital Securities

On 3 November 2016 and 8 November 2012, the Company issued perpetual subordinated capital securities (the "Perpetual Capital Securities") with an aggregate principal amount of US$650 million and US$500 million respectively. The Perpetual Capital Securities do not have maturity date and the distribution payments can be deferred at the discretion of the Company. Therefore, the Perpetual Capital Securities were classified as equity instruments and recorded in equity in the consolidated balance sheet. The Company redeemed US$500 million Perpetual Capital Securities issued on 8 November 2012 in full on 25 May 2018. The amounts as at 31 December 2019 and 2018 included the accrued distribution payments.

28 Long-term Liabilities

	2019 US$'000	2018 US$'000 (Restated)
Long-term bank loan — unsecured (Note 24)	**300,000**	1,034
Long-term notes — unsecured	**871,254**	751,405
Purchase consideration payable for acquisitions	**4,823**	8,960
Lease liabilities	**415,702**	420,628
Other long-term liabilities	**1,612**	2,705
	1,593,391	1,184,732
Current portion of purchase consideration payable for acquisitions	**–**	(819)
Current portion of lease liabilities	**(117,437)**	(129,464)
Current portion of long-term notes	**(374,361)**	–
	1,101,593	1,054,449

Unsecured long-term notes issued to independent third parties in 2010 of US$374,361,000 will mature in 2020 and bear annual coupon of 5.25%. In 2019, the Group issued unsecured long-term notes of US$496,893,000 to independent third parties, which will mature in 2024 and bear annual coupon of 4.375%.

Non-current portion of purchase consideration payable for acquisitions is unsecured, interest-free and not repayable within twelve months. Balance of purchase consideration payable for acquisitions as at 31 December 2019 amounted to US$4,823,000 (2018: US$8,960,000), of which US$2,557,000 (2018: US$6,758,000) was primarily earn-out and US$2,266,000 (2018: US$2,202,000) was earn-up. Earn-out is a contingent consideration that will be realized if the acquired businesses achieve their respective base year profit target, calculated on certain predetermined basis, during the designated period of time. Earn-up is contingent consideration that will be realized if the acquired businesses achieve certain growth targets, calculated based on the base year profits, during the designated period of time. Details of earn-out and earn-up remeasurement are set out in Note 40.

28 Long-term Liabilities (continued)

The maturity of financial liabilities is as follows:

	2019 US$'000	2018 US$'000 (Restated)
Within 1 year	**491,798**	130,283
Between 1 and 2 years	**314,079**	837,182
Between 2 and 5 years	**732,974**	139,110
Wholly repayable within 5 years	**1,538,851**	1,106,575
Over 5 years	**54,540**	78,157
	1,593,391	1,184,732

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

	2019 US$'000	2018 US$'000 (Restated)
Long-term bank loan — unsecured	**300,000**	1,034
Long-term notes — unsecured	**889,644**	761,213
Purchase consideration payable for acquisitions	**4,823**	8,141
Lease liabilities	**415,702**	420,628
Other long-term liabilities	**1,612**	2,705
	1,611,781	1,193,721

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

	2019 US$'000	2018 US$'000 (Restated)
US dollar	**1,197,156**	786,951
Renminbi	**77,642**	99,508
Singapore dollar	**75,323**	83,818
HK dollar	**44,225**	56,238
Taiwan dollar	**25,920**	30,593
Thailand Baht	**26,334**	30,102
Korean Won	**33,843**	23,709
Philippine Peso	**15,973**	21,005
Pound sterling	**24,134**	15,885
Japanese Yen	**30,612**	4,632
Others	**42,229**	32,291
	1,593,391	1,184,732

29 Post-employment Benefit Obligations

	2019 US$'000	2018 US$'000
Pension obligations (Note)	**7,953**	10,503
Long-service payment liabilities	**1,680**	1,089
	9,633	11,592

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

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

	2019 US$'000	2018 US$'000
Present value of funded obligations	**33,213**	34,336
Fair value of plan assets	**(25,260)**	(23,833)
Net liabilities in the consolidated balance sheet	**7,953**	10,503

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

	2019 US$'000	2018 US$'000
Current service cost	**1,310**	1,341
Past service cost and losses on settlements	**238**	9
Administrative expenses	**127**	82
Net interest expense	**143**	250
Total, included in staff costs (Note 9)	**1,818**	1,682

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

	2019 US$'000	2018 US$'000
At 1 January	**23,833**	28,801
Interest income	**522**	502
Exchange differences	**676**	(1,167)
Administrative expenses	**(127)**	(82)
Contributions	**1,251**	1,952
Benefits paid	**(2,275)**	(5,157)
Actuarial gains/(losses) on plan assets	**1,380**	(1,016)
At 31 December	**25,260**	23,833

29 Post-employment Benefit Obligations (continued)

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

	2019 US$'000	2018 US$'000
At 1 January	**34,336**	41,978
Current service cost	**1,310**	1,341
Interest cost	**665**	752
Past service cost and losses on settlements	**238**	9
Actuarial gains from changes in experiences	**(2,421)**	(372)
Actuarial losses/(gains) from changes in financial assumptions	**1,063**	(733)
Actuarial losses/(gains) from changes in demographic assumptions	**788**	(2)
Exchange differences	**970**	(1,749)
Benefits paid	**(3,736)**	(6,888)
At 31 December	**33,213**	34,336

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

	2019 US$'000	2018 US$'000
At 1 January	**10,503**	13,177
Exchange differences	**294**	(582)
Total expense charged in the consolidated profit and loss account	**1,818**	1,682
Remeasurement gains recognized in other comprehensive income	**(1,950)**	(91)
Contributions paid	**(1,251)**	(1,952)
Benefits paid	**(1,461)**	(1,731)
At 31 December	**7,953**	10,503

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

	2019 %	2018 %
Discount rate	**0.6–7.7**	0.9–8.1
Salary growth rate	**2.3–9.0**	2.4–8.0
Pension growth rate	**3.3–5.0**	2.4–6.0

29 Post-employment Benefit Obligations (continued)

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

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

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**±0.25%**	**-2.87%**	**+3.03%**

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

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

(vii) Plan assets comprised:

	2019 US$'000	2018 US$'000
Quoted assets		
Cash and cash equivalents	**9,083**	9,549
Equity instruments		
European	**2,316**	2,330
American	**687**	516
Asian	**716**	909
Global	**172**	44
Debt instruments		
Government securities	**6,677**	5,453
Other securities and debt instruments	**4,379**	3,864
Investment funds		
Unit investment trust funds	**678**	557
Investment bond funds	**447**	438
Mutual funds	**–**	19
Others	**105**	154
	25,260	23,833

The weighted average duration of the defined benefit obligation ranges from 6.0 to 21.0 years.

29 Post-employment Benefit Obligations (continued)

(viii) Expected maturity analysis of benefit payments:

At 31 December 2019	Within 10 years US$'000	Between 10-20 years US$'000	Beyond 20 years US$'000
Expected benefit payments	18,187	20,923	55,159

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

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

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

30 Deferred Taxation

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

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

	2019 US$'000	2018 US$'000 (Restated)
At 1 January	**(13,951)**	(16,208)
Charged to consolidated profit and loss account (Note 6)	**(11,184)**	(512)
Charged to other comprehensive income	**558**	192
(Credited)/charged to hedging reserve	**(1,007)**	2,013
Exchange differences	**631**	564
At 31 December	**(24,953)**	(13,951)

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The Group has unrecognized tax losses of US$279,795,000 (2018: US$263,299,000) to carry forward against future taxable income, out of which US$1,483,000 will expire during 2020-2030. Deferred tax assets for these tax losses are not recognized as it is not probable that related tax assets will be utilized in the foreseeable future.

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

	Provisions		Decelerated tax depreciation allowances		Tax losses		Others		Total	
Deferred tax assets	**2019 US$'000**	2018 US$'000	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Balance at 1 January, as previously reported	**5,623**	11,064	**790**	1,214	**19,091**	18,465	**8,247**	6,741	**33,751**	37,484
Impact of adoption of HKFRS 16	**–**	–	**–**	–	**–**	–	**3,933**	2,991	**3,933**	2,991
Balance at 1 January, as restated	**5,623**	11,064	**790**	1,214	**19,091**	18,465	**12,180**	9,732	**37,684**	40,475
Credited/(charged) to consolidated profit and loss account	**1,605**	(4,962)	**1,503**	(337)	**5,891**	832	**(1,762)**	2,563	**7,237**	(1,904)
Credited/(charged) to other comprehensive income	**–**	–	**–**	–	**–**	–	**1,647**	(192)	**1,647**	(192)
Exchange differences	**308**	(479)	**(10)**	(87)	**(72)**	(206)	**(802)**	77	**(576)**	(695)
At 31 December	**7,536**	5,623	**2,283**	790	**24,910**	19,091	**11,263**	12,180	**45,992**	37,684

30 Deferred Taxation (continued)

Deferred tax liabilities	Accelerated tax depreciation allowances 2019 US$'000	Accelerated tax depreciation allowances 2018 US$'000	Intangible assets arising from business combinations 2019 US$'000	Intangible assets arising from business combinations 2018 US$'000	Others 2019 US$'000	Others 2018 US$'000	Total 2019 US$'000	Total 2018 US$'000
Balance at 1 January, as previously reported	**7,716**	6,854	**14,332**	17,288	**2,090**	579	**24,138**	24,721
Impact of adoption of HKFRS 16	**–**	–	**–**	–	**(405)**	(454)	**(405)**	(454)
Balance at 1 January, as restated	**7,716**	6,854	**14,332**	17,288	**1,685**	125	**23,733**	24,267
(Credited)/charged to consolidated profit and loss account	**(291)**	718	**(1,343)**	(2,685)	**(2,313)**	(449)	**(3,947)**	(2,416)
Charged to hedging reserve	**–**	–	**–**	–	**1,198**	2,013	**1,198**	2,013
Exchange differences	**42**	144	**121**	(271)	**(108)**	(4)	**55**	(131)
At 31 December	**7,467**	7,716	**13,110**	14,332	**462**	1,685	**21,039**	23,733

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

	2019 US$'000	2018 US$'000 (Restated)
Deferred tax assets	**26,948**	15,644
Deferred tax liabilities	**(1,995)**	(1,693)
	24,953	13,951

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

	2019 US$'000	2018 US$'000 (Restated)
Deferred tax assets to be recovered after more than 12 months	**23,799**	12,301
Deferred tax assets to be recovered within 12 months	**3,149**	3,343
Deferred tax liabilities to be settled after more than 12 months	**1,136**	726
Deferred tax liabilities to be settled within 12 months	**859**	967

31 Notes to The Consolidated Cash Flow Statement

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

	2019 US$'000	2018 US$'000 (Restated)
Profit before taxation	**70,027**	197,635
Interest income	**(11,531)**	(10,608)
Finance costs	**89,786**	70,478
Depreciation	**50,467**	46,250
Amortization of system development, software and other license costs	**14,969**	8,247
Amortization of other intangible assets	**26,534**	29,136
Amortization of prepaid premium for land leases	**1**	1
Amortization of right-of-use assets	**154,920**	149,472
Share of net losses/(profits) of associated companies and joint venture	**36**	(205)
Employee share option and share award expenses	**12,010**	13,744
Net loss on disposal of property, plant and equipment and prepaid premium for land leases	**1,113**	3,663
Intangible assets written off on reorganization	**10,322**	–
Loss on disposal of software	**93**	300
Gain on disposals and modifications of right-of-use assets	**(591)**	(180)
Gain on remeasurement of contingent consideration payable	**(621)**	(8,948)
Operating profit before working capital changes	**417,535**	498,985
Decrease/(increase) in inventories	**49,233**	(58,074)
Decrease/(increase) in trade and bills receivable, other receivables, prepayments and deposits and amounts due from related companies	**157,621**	(184,433)
(Decrease)/increase in trade and bills payable, accrued charges and sundry payables and amounts due to related companies	**(307,287)**	155,008
Net cash generated from operations	**317,102**	411,486

31 Notes to The Consolidated Cash Flow Statement (continued)

(b) Analysis of Changes in Financing Activities During The Year

	2019				2018			
	Share capital and share premium US$'000 (Note 25 & 41(a))	**Bank loans US$'000**	**Lease liabilities US$'000**	**Long-terms notes US$'000**	Share capital and share premium US$'000 (Note 25 & 41(a))	Bank loans US$'000	Lease liabilities US$'000	Long-terms notes US$'000
At 1 January	**757,958**	**273,985**	**420,628**	**751,405**	742,101	24,528	443,913	752,432
Non-cash movement:								
Additions of lease liabilities	**-**	**-**	**157,826**	**-**	–	–	136,295	–
Issuance of shares for Share Award Scheme	**53**	**-**	**-**	**-**	59	–	–	–
Vesting of shares for Share Award Scheme	**16,429**	**-**	**-**	**-**	15,798	–	–	–
Non-cash interest	**-**	**-**	**15,645**	**(748)**	–	–	15,055	(1,027)
Exchange difference and other non-cash movements	**-**	**475**	**(11,370)**	**7,640**	–	(524)	(16,885)	–
	774,440	**274,460**	**582,729**	**758,297**	757,958	24,004	578,378	751,405
Net drawdown of bank loans	**-**	**30,446**	**-**	**-**	–	249,981	–	–
Drawdown of long-term notes	**-**	**-**	**-**	**496,737**	–	–	–	–
Repayment of long-term notes	**-**	**-**	**-**	**(383,780)**	–	–	–	–
Payment of lease liabilities	**-**	**-**	**(167,027)**	**-**	–	–	(157,750)	–
Accrued interest	**-**	**27,258**	**-**	**39,586**	–	15,698	–	39,735
Interest paid	**-**	**(27,258)**	**-**	**(39,586)**	–	(15,698)	–	(39,735)
At 31 December	**774,440**	**304,906**	**415,702**	**871,254**	757,958	273,985	420,628	751,405

32 Discontinued Operations

The results of the Discontinued Operations are presented in the consolidated profit and loss account as Discontinued Operations in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The consolidated statement of comprehensive income and consolidated cash flow statement distinguish the Discontinued Operations from the Continuing Operations.

(a) Results of the Discontinued Operations have been included in the Consolidated Profit and Loss Accounts as follows:

	2018 US$'000 (Restated)
Turnover	382,235
Cost of sales	(298,146)
Gross profit	84,089
Selling and distribution expenses	(27,294)
Merchandising and administrative expenses	(78,391)
Core operating loss	(21,596)
Amortization of other intangible assets	(3,682)
Operating loss	(25,278)
Interest income	157
Interest expenses	(1,068)
Loss before taxation	(26,189)
Taxation	825
Loss after taxation	(25,364)
Loss on disposal of business and others (Note 32(e))	(113,778)
Loss for the year	(139,142)
Attributable to:	
Shareholders of the three Product Verticals	(136,144)
Non-controlling interest	(2,998)
	(139,142)

32 Discontinued Operations (continued)

(a) Results of the Discontinued Operations have been included in the Consolidated Profit and Loss Accounts as follows: (continued)

STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

	2018 US$'000 (Restated)
Loss for the year	(139,142)
Other comprehensive income:	
Items that may be reclassified subsequently to profit or loss	
Currency translation differences	15,409
Total items that may be reclassified subsequently to profit or loss	15,409
Total other comprehensive income for the year, net of tax	15,409
Total comprehensive expense for the year	(123,733)
Attributable to:	
Shareholders of the three Product Verticals	(120,735)
Non-controlling interest	(2,998)
	(123,733)

(b) Geographical analysis of turnover of the Discontinued Operations

For the year ended 31 December 2018, turnover consists of sales to United States of America of US$186,326,000, Europe of US$105,993,000, Asia of US$65,608,000 and Rest of the world US$24,308,000.

32 Discontinued Operations (continued)

(c) Operating profit of the Discontinued Operations

Operating profit of the Discontinued Operations is stated after charging the following:

	2018 US$'000 (Restated)
Cost of inventories sold	298,146
Amortization of system development, software and other license costs	515
Amortization of other intangible assets (excluded from the core operating profit)	3,682
Depreciation of property, plant and equipment	3,251
Amortization of right-of-use assets	2,366
Increase in provision for impairment of trade and other receivables	693
Staff costs	36,906

(d) Disposed net assets of the Discontinued Operations at the date of disposal are as follows:

	2018 US$'000 (Restated)
Intangible assets	1,632,176
Property, plant and equipment	40,394
Right-of-use assets	12,455
Other non-current assets	9,556
Trade and other receivables	170,313
Inventories	130,268
Cash and bank balances	128,826
Other current assets	45
Trade and other payables	(236,687)
Lease liabilities	(13,110)
Other current liabilities	(16,112)
Other non-current liabilities	(92,410)
	1,765,714
Remeasurement loss recognized in previous year	(592,363)
	1,173,351
Less: Non-controlling interest	(6,226)
Net assets disposed	1,167,125

32 Discontinued Operations (continued)

(e) Analysis of loss on disposal of business of the Discontinued Operations is as follows:

	2018 US$'000 (Restated)
Considerations on disposal of business	1,100,000
Cash and cash equivalents adjustment for disposal of business	128,826
Debt released, transaction costs and other closing adjustments for disposal business	(95,073)
Less: Net assets disposed	(1,167,125)
Exchange reserve and others	(80,406)
Loss on disposal of business	(113,778)

(f) An analysis of the cash flow of the Discontinued Operations is as follows:

	2018 US$'000 (Restated)
Net cash outflow from operating activities	(64,055)
Net cash outflow from investing activities	(3,981)
Net cash outflow from financing activities*	(5,768)
Total cash flow	(73,804)

* Amounts adjusted to eliminate impact from financing activities between the Discontinued Operations and the Continuing Operations.

(g) Related party transactions

The Discontinued Operations has the following related party transactions during the year ended 31 December 2018:

	2018 US$'000
Distribution and sales of goods	16

Pursuant to the master distribution and sales of goods agreement entered into on 5 December 2014 with FH (1937), certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

33 Transaction with Non-Controlling Interests

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

On 8 August 2019, the Group completed a transaction with an indirect wholly-owned subsidiary of Temasek Holdings Private Limited ("Temasek"), pursuant to which Temasek acquired 21.7% interest of LF Logistics, a wholly-owned subsidiary of the Company before the transaction, through subscription of new shares issued by LF Logistics. The transaction does not result in loss of control by the Group in LF Logistics and therefore it has been accounted for as transactions with equity owners of the Group. The resulting gains on disposal to non-controlling interests has been recorded in equity.

34 Contingent Liabilities

	2019 **US$'000**	2018 US$'000
Guarantees in respect of banking facilities granted to:		
Associated companies	**–**	750

35 Capital Commitments

	2019 **US$'000**	2018 US$'000
Contracted but not provided for:		
Property, plant and equipment	**1,301**	14,248
System development, software and other license costs	**820**	2,756
	2,121	17,004

36 Charges on Assets

There were no charges on the assets and undertakings of the Group as at 31 December 2019 and 2018.

37 Related Party Transactions from Continuing Operations

The Continuing Operations of the Group had the following material transactions with its related parties during the year ended 31 December 2019 and 2018:

	Note	**2019 US$'000**	2018 US$'000 (Restated)
Distribution and sales of goods	(i)	**14,961**	19,479
Operating leases rental and license fee received	(ii)	**5,300**	4,393
Sourcing and supply chain management services income	(iii)	**815,693**	1,363,013
Logistics related services income	(iv)	**9,415**	16,725
Service fee received	(v)	**24,929**	20,500
Rental income	(vi)	**4,614**	2,327
Ancillary sourcing and logistics income	(vii)	**2,552**	3,940
Underlying FOB value of ordered products	(vii)	**68,701**	49,479
Office administrative expenses reimbursement	(viii)	**–**	27,167
Office administrative expenses paid	(ix)	**56,268**	11,818
Logistics related service income from an associated company	(x)	**5,256**	4,777

(i) Pursuant to the master distribution and sales of goods agreement entered into on 17 November 2017 with FH (1937) for a term of three years ending 31 December 2020, certain distribution and sales of goods was made on mutually agreed normal commercial terms with FH (1937) and its associates.

(ii) Pursuant to the master agreement for leasing of properties or sub-leasing and/or licensing arrangement dated 14 November 2016 entered into with FH (1937) and its associates for a term of three years ended 31 December 2019, the Group had rental charge for certain properties leased from FH (1937) and its associates during the period based on mutually agreed normal commercial terms. For the year ended 31 December 2019, aggregate operating lease rental and license fee received approximated US$5,300,000 (2018: US$4,393,000). On 21 November 2019, the Company entered into a renewed master lease agreement for the properties leasing or sub-leasing and/or licensing arrangements for a term of three years commencing 1 January 2020.

(iii) For the year ended 31 December 2019, the Group provided sourcing and supply chain management services to Global Brands Group with an aggregate income, consisting of commission and FOB of all products and components sourced, of approximately US$815,693,000 (2018: US$1,363,013,000). The new buying agency agreement with term commencing from 1 April 2020 to 31 March 2023 has been signed on 21 November 2019 between the Group and Global Brands Group. The new buying agency agreement was approved by Global Brands's independent shareholders on 5 March 2020.

37 Related Party Transactions from Continuing Operations (continued)

(iv) Pursuant to the master agreement for provision of logistics related services entered into on 17 November 2017, the Group provided certain logistics related services to FH (1937) and its associates during the year. The aggregate service income, excluding the passed-through costs for direct freight forwarding, approximated US$9,415,000 (2018: US$16,725,000).

(v) Pursuant to the service agreement entered into with LH Pegasus Holding Limited ("LH Pegasus") on 3 April 2018, the Group provided certain back office function related to IT, human resources, finance and accounting, corporate services and global transaction services to LH Pegasus and its subsidiaries for a term from 3 April 2018 to 31 December 2019. For the year ended 31 December 2019, aggregate service fee received was US$24,929,000 (for the period from 3 April to 31 December 2018: US$20,500,000).

(vi) Pursuant to the master property agreement entered into with LH Pegasus on 3 April 2018, the Group and LH Pegasus had rental and license received from one another for certain sub-lease and license office, showroom and warehouse premises for a term from 3 April 2018 to 31 December 2020. For the year ended 31 December 2019 with an aggregate amount of US$4,614,000 (for the period from 3 April to 31 December 2018: US$2,327,000).

(vii) Pursuant to the ancillary sourcing, logistics and trading services agreement entered into with LH Pegasus on 3 April 2018 for a term from 3 April 2018 to 31 December 2020. The Group provided agency-based sourcing and logistics services to LH Pegasus. LH Pegasus provided principal trading services to the Group. For the year ended 31 December 2019, aggregate amount of the Group's ancillary sourcing income, logistics services income excluding the pass-through costs for direct freight forwarding and trading services expenses including the underlying FOB value of the ordered products was approximate US$71,253,000 (for the period from 3 April to 31 December 2018: US$53,419,000).

(viii) For the period from 1 January to 31 October 2018, the Group charged FH (1937) for costs incurred on certain centralized office support functions (including corporate services, regional information technology support and human resources) on an actual costs recovery basis, amounting to US$27,167,000.

(ix) Pursuant to a services agreement entered into with Fung Corporate Services Group Limited ("FCSG") in November 2018 ("Services Agreement"), certain employees of the Group who provide centralized office support functions were transferred to FCSG to consolidate centralized offices support functions among different Fung Group companies. During the year, based on the specific services provided under the Services Agreement, FCSG charged the Group on an actual costs recovery basis, amounting to US$56,268,000 (for the period from 1 November to 31 December 2018: US$11,818,000).

(x) During the year, the Group provided certain Logistics related service to an associated company, the Group charged Logistics related service income on mutually agreed normal commercial terms amounting to US$5,256,000 (2018: US$4,777,000).

Other than (viii), (ix) and (x), the foregoing related party transactions also fall under the definition of continuing connected transactions of the Company as stipulated in the Listing Rules on the Stock Exchange.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in Notes 10 and 42.

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

38 Financial Risk Management

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

(a) Market Risk

(I) FOREIGN EXCHANGE RISK

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

The Group's revenues and payments were transacted predominantly in US dollars. Therefore, it considers there is no significant risk exposure in relation to foreign exchange rate fluctuations. There are small portion of sales and purchases transacted in different currencies, for which the Group arranges hedging through foreign exchange forward contracts.

For transactions that are subject to foreign exchange risk, the Group hedges its foreign currency exposure once it receives confirmed orders or enter into customer transactions. To mitigate the impact from changes in foreign exchange rates, the Group regularly reviews the operations in these countries and makes necessary hedging arrangements in certain currencies against the US dollar.

However, the Group does not enter into foreign currency hedges with respect to the local financial results and long-term equity investments of its non-US dollar foreign operations for either the income statements or balance sheet reporting purposes. Since the Group's functional currency is the US dollar, it is subject to exchange rate exposure from the translation of foreign operations' local results to US dollars at the average rate for the period of group consolidation. The Group's net equity investments in non-US dollar-denominated businesses are also subject to unrealized translation gain or loss on consolidation. Fluctuation of relevant currencies against the US dollar will result in unrealized gain or loss from time to time, which is reflected as movement in exchange reserve in the consolidated statement of changes in equity.

From a medium-to long-term perspective, the Group manages its operations in the most cost-effective way possible within the global network. The Group strictly prohibits any financial derivative arrangement merely for speculation.

At 31 December 2019, if the major foreign currencies, such as Euro and Pound Sterling, to which the Group had exposure had strengthened/weakened by 10% (2018: 10%) against US and HK dollar with all other variables held constant, profit for the year and equity would have been approximately 0.3% lower/higher (2018 (Restated): 0.2% lower/higher) and 2.4% higher/lower (2018 (Restated): 2.8% higher/lower), mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables, borrowings and intangible assets.

38 Financial Risk Management (continued)

(a) Market Risk (continued)

(II) PRICE RISK

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as financial assets at fair value through other comprehensive income (FVOCI). The Group maintains these investments for long-term strategic purposes and the Group's overall exposure to price risk is not significant.

At 31 December 2019 and up to the report date of the financial statements, the Group held no material derivative financial instruments except for certain foreign exchange forward contracts entered into for hedging of foreign exchange risk exposure on sales and purchases transacted in different currencies. At 31 December 2019, the fair value of foreign exchange forward contracts entered into by the Group amounted to US$314,000 (2018: US$3,985,000 as derivative financial instruments (assets)), which has been reflected in full in the Group's consolidated balance sheet as derivative financial instruments (liabilities).

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

At 31 December 2019, if the variable interest rates on the bank borrowings had been 0.1% higher/lower with all other variables held constant, profit for the year and equity would have been approximately US$869,000 (2018: US$634,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

38 Financial Risk Management (continued)

(b) Credit Risk

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

The Group is exposed to credit risk from its operating activities. This arises primarily from its principal trading business, where the Group acts as a supplier, and working capital solutions, where it settles invoices earlier at a discount to certain suppliers via LF Credit. The Group therefore assumes direct counterparty risk for its customers in terms of these account receivables and inventory.

All new customers undergo a risk assessment process prior to trade terms being agreed in accordance with the Group's global credit risk management framework. These assessments focus on the financial strength of individual customers as well as information specific to the customer and the economic environment in which each customer operates. To further reduce its exposure to credit risks, (a) the Group would require collateral (such as standby or commercial letters of credit, or bank guarantees) from customers if necessary, and (b) the Group has also taken out trade credit insurance to protect against losses arising from non-payment, and have entered into trade receivables factoring agreements with financial institutions on a non-recourse basis. Both receivable balances and inventory levels are reviewed regularly according to the Group's credit policies and follow-up action is taken to recover overdue balances. Furthermore, the Group's management reviews regularly the recoverable amount of its trade receivables to ensure that adequate impairment provision is made.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

For trade receivables not covered by customers' standby letters of credit, bank guarantees, credit insurance or under a back-to-back payment arrangement with suppliers, the Group will apply impairment loss provisions, in whole or in part, when the Group has assessed the indicators whether the receivables are unrecoverable, has made all practical recovery efforts, and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, debtor insolvency proceedings, the failure of a debtor to make ongoing settlement with the Group, a failure to make contractual payments on accounts receivable that are more than 365 days past due and a failure to agree on a settlement plan.

The provision for impairment is considered individually and collectively for different trade receivable categories. When determining the appropriate level of provision for impairment for individual trade receivable categories, the indicators outlined above will be considered both generally for the Group or specifically for that trade receivable category. As at 31 December 2019, based on these indicators, the composition and ageing of the trade receivables for which the Group has made provision for impairment as compared to gross trade receivables are as follows: for trade receivables not yet due to 90 days past due, 91 to 180 days past due and over 180 days past due is 0.2%, 15.8% and 28.5% respectively.

Impairment losses on trade receivables are presented as net impairment losses within core operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

38 Financial Risk Management (continued)

(b) Credit Risk (continued)

The provision for impairment for trade receivables during the year was set out in Note 21.

The impairment loss of other financial assets carried at amortized cost is measured based on the twelve months' expected credit loss. As at 31 December 2019, trade receivables of US$11,317,000 (2018: US$49,040,000) and other receivables of US$533,000 (2018: US$2,240,000) have been provided for but none of the other financial assets including financial assets at fair value through other comprehensive income (Note 17) and due from related companies (Note 19) have been considered impaired as there is no recent history of default of the counterparties and ongoing payments are received. Impairment loss provisions will be considered if there are indicators that there is no reasonable expectation of recovery on these amounts, including if the counterparty fails to make contractual payments for a period of greater than 365 days past due.

The ageing of the trade amount due from other related companies based on due date is set out in Note 19.

Global Brands Group is a related party of the Group. As at 31 December 2019, the total accounts receivable from Global Brands Group amounted to US$533,766,000. Following the divestment of its US wholesale business in October 2018, Global Brands Group underwent major restructuring efforts to turn around its business. Whilst Global Brands Group's financial condition has improved as a result of these restructuring efforts, Global Brands Group's cash flow, which was partly impacted by one-time restructuring charges, was not yet sufficient to settle all shipments of goods on time in 2019.

Due to the slowdown in the settlement of accounts receivable, the ageing profile of accounts receivable from Global Brands Group deteriorated in 2019 with US$147,909,000 overdue 91 to 180 days and US$141,363,000 overdue 181 to 365 days (compared to US$77,017,000 overdue 91 to 180 days and US$15,147,000 overdue 181 to 365 days as at the end of 2018). Global Brands Group continues to pay and settle its outstanding receivables on a monthly basis. There are no accounts receivable being overdue more than 365 days. Accordingly and in compliance with its accounting policies, the Company has concluded that no accounts receivable provisions are required as at 31 December 2019.

The maximum exposure of these other financial assets to credit risk at the reporting date is their carrying amounts.

(c) Liquidity Risk

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

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents (Note 22)) on the basis of expected cash flow.

The table below analyzes the liquidity impact of the Group's non-derivative financial liabilities (including annual coupons payable for the long-term notes) into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and these amounts will not reconcile to the amounts disclosed on the consolidated balance sheet and in Note 28 for long-term liabilities.

38 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
At 31 December 2019				
Purchase consideration payable for acquisitions	**–**	**4,823**	**–**	**–**
Long-term bank loan — unsecured	**–**	**220,000**	**80,000**	**–**
Long-term notes — unsecured	**405,870**	**21,875**	**565,625**	**–**
Trade and bills payable	**1,503,684**	**–**	**–**	**–**
Accrued charges and sundry payables	**544,015**	**–**	**–**	**–**
Due to related companies	**8,181**	**–**	**–**	**–**
Short-term bank loans — unsecured	**4,906**	**–**	**–**	**–**
Lease liabilities	**129,584**	**97,096**	**167,533**	**58,066**
At 31 December 2018 (Restated)				
Purchase consideration payable for acquisitions	819	5,192	4,034	–
Long-term bank loan – unsecured	–	1,034	–	–
Long-term notes – unsecured	39,375	769,688	–	–
Trade and bills payable	1,736,817	–	–	–
Accrued charges and sundry payables	585,897	–	–	–
Financial guarantee contract	750	–	–	–
Due to related companies	37,809	–	–	–
Short-term bank loans – unsecured	272,951	–	–	–
Lease liabilities	141,444	87,767	148,797	82,121

All of the Group's gross settled derivative financial instruments are in hedge relationships and are due to settle within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of US$166,062,000 (31 December 2018: US$166,295,000) and undiscounted contractual cash outflows of US$166,186,000 (31 December 2018: US$159,933,000).

39 Capital Risk Management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term bank loans (Note 24), long-term bank loan (Note 24) and long-term notes (Note 28)) less cash and cash equivalents (Note 22). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio not exceeding 35%. The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 US$'000	2018 US$'000 (Restated)
Long-term bank loan (Note 24)	**300,000**	1,034
Short-term bank loans (Note 24)	**4,906**	272,951
Long-term notes (Note 28)	**871,254**	751,405
	1,176,160	1,025,390
Less: Cash and cash equivalents (Note 22)	**(932,167)**	(612,391)
Net debt	**243,993**	412,999
Total equity	**2,112,786**	1,854,832
Total capital	**2,356,779**	2,267,831
Gearing ratio	**10%**	18%

40 Fair Value Estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2019.

	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Assets				
Financial assets at fair value through other comprehensive income (Note 17)				
– Club debentures	**–**	**–**	**2,737**	**2,737**
Total assets	**–**	**–**	**2,737**	**2,737**
Liabilities				
Derivative financial instrument used for hedging (Note 20)	**–**	**314**	**–**	**314**
Purchase consideration payable for acquisitions	**–**	**–**	**4,823**	**4,823**
Total liabilities	**–**	**314**	**4,823**	**5,137**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Financial assets at fair value through other comprehensive income (Note 17)				
— Club debentures	–	–	4,601	4,601
Derivative financial instruments used for hedging (Note 20)	–	3,985	–	3,985
Total assets	–	3,985	4,601	8,586
Liabilities				
Purchase consideration payable for acquisitions	–	–	8,960	8,960
Total liabilities	–	–	8,960	8,960

40 Fair Value Estimation (continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

Derivative Financial Instruments Used for Hedging

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

40 Fair Value Estimation (continued)

Purchase Consideration Payable for Acquisitions

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2019 and 2018.

	2019		2018	
	Purchase consideration payable for acquisitions US$'000	**Others US$'000**	Purchase consideration payable for acquisitions US$'000	Others US$'000
Opening balance	**8,960**	**4,601**	61,583	4,338
Fair value gains	**–**	**145**	–	134
Additions	**–**	**–**	–	129
Disposal	**–**	**(2,009)**	–	–
Settlement	**(3,661)**	**–**	(42,889)	–
Remeasurement of acquisitions payable	**(621)**	**–**	(8,948)	–
Others	**145**	**–**	(786)	–
Closing balance	**4,823**	**2,737**	8,960	4,601
Total gain for the year included in profit or loss	**621**	**–**	8,948	–

41 Balance Sheet and Reserve Movement of the Company

Balance Sheet of the Company

	Note	As at 31 December 2019 US$'000	2018 US$'000
Non-current assets			
Interests in subsidiaries		**1,132,459**	1,132,210
Current assets			
Due from subsidiaries		**4,261,640**	4,502,273
Due from related companies		**–**	2,394
Other receivables, prepayments and deposits		**220**	570
Cash and bank balances		**685**	1,535
		4,262,545	4,506,772
Current liabilities			
Due to subsidiaries		**249,300**	488,166
Accrued charges and sundry payables		**10,868**	6,049
Current portion of long-term notes		**374,361**	–
		634,529	494,215
Net current assets		**3,628,016**	4,012,557
Total assets less current liabilities		**4,760,475**	5,144,767
Financed by:			
Share capital		**13,686**	13,633
Reserves	(a)	**3,594,209**	3,724,042
Shareholders' funds		**3,607,895**	3,737,675
Holders of perpetual capital securities		**655,687**	655,687
Total equity		**4,263,582**	4,393,362
Non-current liabilities			
Long-term notes		**496,893**	751,405
		4,760,475	5,144,767

William Fung Kwok Lun
Director

Spencer Theodore Fung
Director

41 Balance Sheet and Reserve Movement of the Company (continued)

(a) Reserve Movement of the Company

	Share premium US$'000	Treasury shares US$'000 (Note 26 (iii))	Contribution surplus US$'000 (Note (i))	Employee share-based compensation reserve US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2019	**744,325**	**(15,749)**	**454,640**	**64,121**	**2,476,705**	**3,724,042**
Loss for the year	**–**	**–**	**–**	**–**	**(85,591)**	**(85,591)**
Purchase of shares for Share Award Scheme	**–**	**(2,691)**	**–**	**–**	**–**	**(2,691)**
Issuance of shares for Share Award Scheme	**–**	**(53)**	**–**	**–**	**–**	**(53)**
Employee Share Option and Share Award Scheme:						
— value of employee services	**–**	**–**	**–**	**13,312**	**–**	**13,312**
— vesting of shares for Share Award Scheme	**16,429**	**1,897**	**–**	**(18,326)**	**–**	**–**
2018 final dividend paid	**–**	**–**	**–**	**–**	**(43,848)**	**(43,848)**
2019 interim dividend paid	**–**	**–**	**–**	**–**	**(10,962)**	**(10,962)**
Balance at 31 December 2019	**760,754**	**(16,596)**	**454,640**	**59,107**	**2,336,304**	**3,594,209**
Balance at 1 January 2018	728,527	(10,996)	974,189	66,043	1,682,385	3,440,148
Profit for the year	–	–	–	–	849,036	849,036
Purchase of shares for Share Award Scheme	–	(7,577)	–	–	–	(7,577)
Issuance of shares for Share Award Scheme	–	(59)	–	–	–	(59)
Employee Share Option and Share Award Scheme:						
— value of employee services	–	–	–	16,759	–	16,759
— vesting of shares for Share Award Scheme	15,798	2,883	–	(18,681)	–	–
2017 final dividend paid	–	–	–	–	(21,830)	(21,830)
2017 special dividend paid	–	–	(519,549)	–	–	(519,549)
2018 interim dividend paid	–	–	–	–	(32,886)	(32,886)
Balance at 31 December 2018	744,325	(15,749)	454,640	64,121	2,476,705	3,724,042

NOTE:

(i) The contribution surplus of the Company represents:

(1) The difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to US$14,232,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

(2) The difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to US$249,957,000. At Group level, the amount is set off against goodwill arising from the acquisition.

(3) Contributed surplus arises from the transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000 in prior years and the distribution of a special dividend of US$519,549,000 in 2018.

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

(a) Directors' and Chief Executive's Emoluments

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

For the year ended 31 December 2019:

	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	
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Award Shares gain	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director		Total
	US$'000	US$'000	US$'000 (Note (i))	US$'000	US$'000 (Note (ii))	US$'000 (Note (iii))	US$'000	US$'000	US$'000	US$'000
Executive Directors										
William Fung Kwok Lun	39	619	-	-	97	-	-	-	-	755
Spencer Theodore Fung	39	653	247	-	253	-	2	-	-	1,194
Joseph C. Phi	39	603	286	-	217	27	2	-	2,000	3,174
Non-executive Directors										
Victor Fung Kwok King	63	-	-	-	-	-	-	-	-	63
Marc Robert Compagnon (Note (iv))	45	151	54	-	235	30	1	-	-	516
Allan Wong Chi Yun	71	-	-	-	-	-	-	-	-	71
Martin Tang Yue Nien	71	-	-	-	-	-	-	-	-	71
Margaret Leung Ko May Yee	71	-	-	-	-	-	-	-	-	71
Cheung Chih Tin	52	-	-	-	-	-	-	-	-	52
John G. Rice	57	-	-	-	-	-	-	-	-	57

NOTES:

(i) The amounts are accrued discretionary bonuses for 2019.

(ii) Award Shares gain is determined based on the market price at the vesting date.

(iii) Other benefits include mortgage interest subsidy.

(iv) Re-designated to Non-executive Director of the Company on 28 January 2019.

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

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

For the year ended 31 December 2018:

	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	
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Award Shares gain	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director		Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
			(Note (i))		(Note (ii))	(Note (iii))				
Executive Directors										
William Fung Kwok Lun	39	618	754	–	143	–	–	–	–	1,554
Spencer Theodore Fung	39	653	986	–	376	–	2	–	–	2,056
Marc Robert Compagnon	39	603	1,270	–	345	72	2	–	–	2,331
Joseph C. Phi (Note (iv))	39	603	952	–	315	29	2	–	–	1,940
Non-executive Directors										
Victor Fung Kwok King	58	–	–	–	–	–	–	–	–	58
Allan Wong Chi Yun	71	–	–	–	–	–	–	–	–	71
Martin Tang Yue Nien	71	–	–	–	–	–	–	–	–	71
Margaret Leung Ko May Yee	71	–	–	–	–	–	–	–	–	71
Cheung Chih Tin	52	–	–	–	–	–	–	–	–	52
John G. Rice (Note (v))	52	–	–	–	–	–	–	–	–	52

NOTES:

(i) The amounts are accrued discretionary bonuses for 2018.

(ii) Award Shares gain is determined based on the market price at the vesting date.

(iii) Other benefits include mortgage interest subsidy.

(iv) Appointed as Executive Director of the Company with effect from 10 January 2018.

(v) Appointed as Independent Non-executive Director of the Company with effect from 10 January 2018.

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

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

During the year, no Share (2018: Nil) was issued to any Directors of the Company under the 2003 Option Scheme and 2014 Option Scheme.

As at 31 December 2019, certain Directors held the following Share Options to acquire Shares of the Company:

No. of Share Options	Exercise Price	Exercisable Period
8,000,000 (2018: 10,000,000)	HK$12.12[1]	Exercisable in four equal tranches during the period from 1/5/2018 to 30/4/2023 with each tranche having an exercisable period of two years
6,447,000 (2018: 12,894,000)	HK$7.49	Exercisable during the period from 1/1/2018 to 31/12/2019

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

The closing market price of the Shares as at 31 December 2019 was HK$0.85.

(b) Directors' Termination Benefits

No termination benefit was provided to or receivable by any director during the year as compensation for the early termination of appointment (2018: None).

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

No consideration was provided to or receivable by third parties for making available directors' services (2018: None).

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

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2018: None).

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

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

43 Subsequent Event

Following the outbreak of the COVID-19 virus in early 2020, precautionary and control measures including quarantine, travel restrictions and temporary production halts have been and continue to be implemented across China and around the world in many other countries which are relevant to the Group's business and operations.

The further spread and continuation of the COVID-19 virus is expected to affect consumer sentiment and the overall retail environment, which the Group believes could last throughout the year. Given the COVID-19 virus impact is creating more volatility and uncertainty in the global economy, the Group's customers will likely be negatively impacted. However, the spread and impact of the COVID-19 virus is still developing and its impact on the global economy and the likely impact on the Group's business and operations is extremely difficult to assess.

The Group has taken relevant actions to minimize the impact of the COVID-19 virus to its operations and will continue to pay close attention to developments and evaluate their impact on the financial position and operating results of the Group.

In preparing the financial statements, the impact of the COVID-19 virus has not been considered because it is a post balance sheet non-adjusting event and the financial impact, including the assessment of risk associated with the Group's operations, the adequacy of provision for impairment of receivables and the present value of estimated future cash flow of the CGUs in the goodwill impairment test, has yet to be ascertained but will be reflected in future financial statements when the actual impact is known.

44 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 20 March 2020.

45 Principal Subsidiaries, Associated Companies and Joint Venture

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	Held directly				
(1)	Golden Gate Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	Integrated Distribution Services Group Limited	Bermuda	Ordinary US$12,000.1	100	Investment holding
(1)	LF Centennial Limited	British Virgin Islands	Ordinary US$50,000	100	Investment holding
(1)	LF Credit Limited	Bermuda	Ordinary US$12,000	100	Investment holding
(1)	LF Logistics Holdings Limited	Bermuda	Ordinary US$127.76	78.3	Investment holding
	Li & Fung (B.V.I.) Limited	British Virgin Islands	Ordinary US$400,010	100	Marketing services and investment holding
	Held indirectly				
(1)	Appleton Holdings Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
	Black Cat Fireworks Limited	England	Ordinary GBP15,500,000	100	Wholesaling
	Camberley Enterprises Limited	Hong Kong	Ordinary HK$250,000	100	Manufacturing and trading
(1)	Camberley Trading Service (Shenzhen) Limited	The People's Republic of China	RMB1,500,000	100 foreign-owned enterprise	Export trading services
(1)	Centennial (Luxembourg) S.a.r.l.	Luxembourg	EUR9,000,000	100	Investment holding
	Character Direct Limited	Hong Kong	Ordinary HK$2	100	Design and marketing
	Chuan Jui Chuan Logistics Co., Ltd.	Taiwan	NT$25,000,000	100	Transportation
	Chuan Jui Fu Logistics Co., Ltd.	Taiwan	NT$25,000,000	100	Transportation
(1)	Colby Group Holdings Limited	British Virgin Islands	Ordinary US$45,000	100	Investment holding
(1)	Colby Property Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Comet Feuerwerk GmbH	Germany	EUR1,000,000	100	Fireworks wholesaling
	Concept 3 Limited	Hong Kong	Ordinary HK$2	100	Investment holding
(1)	Covo Design (Dongguan) Co., Ltd.	The People's Republic of China	US$4,000,000	100 foreign-owned enterprise	Sample production and exporting trading services
	CS International Limited	Hong Kong	Ordinary HK$1,000,000	100	Provision of supply chain management and consultancy services
	Definitive Sourcing (India) Private Limited	India	Rs100,000	100	Buying services for sourcing goods
	Direct Sourcing Group Pte. Ltd.	Singapore	Ordinary S$10,000	100	Export trading
	Dodwell (Mauritius) Limited	Hong Kong	Ordinary "A" HK$300,000 Ordinary "B" HK$200,000	60	Export trading
(1)	Dodwell (Singapore) Pte. Ltd.	Singapore	Ordinary S$75,000	100	Export trading
(1)	DSG (Bangladesh) Limited	Bangladesh	Ordinary TK$3,750,000	100	Export trading
	DSG (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
(1)	DSG (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	DSG (US) Inc.	U.S.A.	Common stock US$1	100	Sourcing service
(1)	Estuary Logistics Group Limited	England	Ordinary "A" GBP95	100	Investment holding
			Ordinary "B" (Non-voting) GBP5		
(1)	Estuary Logistics Limited	England	Ordinary "A" GBP200	100	Provision of logistics services
			Ordinary "B" (Non-voting) GBP100		
(1)	Fireworks Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	GMR (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	Golden Gate Fireworks Inc.	U.S.A.	Common stock US$600,000	100	Commission agent and investment holding
	Golden Horn N.V.	Curacao	US$6,100	100	Investment holding
	Goodwest Enterprises Limited	Hong Kong	Ordinary HK$2	100	Export trading
	GSCM (HK) Limited	Hong Kong	Ordinary HK$140,000	100	Export trading
(1)	Hanson Im-und Export GmbH	Germany	EUR26,000	100	Wholesaling
	Homeworks Asia Limited	Hong Kong	Ordinary HK$2	100	Export trading
	HTL Fashion (UK) Limited	England	Ordinary GBP1	100	Design and export trading
	HTL Fashion Hazir Giyim Sanayi Ticaret Anonim Sirketi	Turkey	TL50,000	100	Manufacturing
(1)	IDS Group Limited	British Virgin Islands	Ordinary US$949,166	100	Investment holding
	International Sources Trading Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Intri Fashions Limited (formerly known as Wilson Textile Limited)	Hong Kong	Ordinary HK$1	100	Export trading
	Kariya Industries Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading
	Lenci Calzature SpA	Italy	Equity shares EUR206,400	100	Design, marketing and sourcing
	LF (Philippines), Inc.	The Philippines	Common shares Peso 21,000,000	100	Provision of logistics services
(1)	LF Americas Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	LF Asia Direct Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Asia Direct Management Limited	Hong Kong	Ordinary HK$1	100	Investment holding
(1)	LF OnE Inc. (formerly known as LF Beauty Inc.)	U.S.A.	Common stock US$1	100	Investment holding

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	LF Centennial Pte. Ltd.	Singapore	Ordinary S$100,000	100	Export trading services
	LF Centennial Services (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Provision of management support services
	LF Credit Pte. Ltd.	Singapore	Ordinary S$1,000,000	100	Provision of trade-related credit services
(1)	LF Distribution Holding Inc.	U.S.A.	Common stock US$1	100	Investment holding
	LF Distribution International Holding Limited	Hong Kong	Ordinary US$1	100	Investment holding
(1)	LF Distribution International Inc.	U.S.A.	Common stock US$1	100	Investment holding
(1)	LF Distribution Limited	Bermuda	Ordinary US$100	100	Investment holding
	LF Europe (Germany) Services GmbH	Germany	EUR25,000	100	Provision of accounting services
(1)	LF Europe Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	LF Europe Limited	England	Ordinary GBP26,788,004	100	Investment holding
	LF Europe Trading Limited	England	Ordinary GBP100	100	Service company
	LF Freight (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100	Provision of management support services
	LF Home Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	LF International Inc.	U.S.A.	Common stock US$30,002	100	Investment management
	LF Logistics (Australia) Pty Limited	Australia	Ordinary AU$100	100	Provision of logistic services
(1)	LF Logistics (Bangladesh) Limited	Bangladesh	Ordinary TK$10,000,000	100	Provision of freight forwarding services
	LF Logistics (Cambodia) Limited	Cambodia	Ordinary Riels 20,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics (China) Co., Ltd	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Provision of freight forwarding and other logistics services
	LF Logistics (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Provision of logistics services
(1)	LF Logistics (India) Private Limited	India	Ordinary Rs15,000,000	100	Logistics, supply chain management and freight forwarding
	LF Logistics (Jiangsu) Co., Ltd.	The People's Republic of China	RMB10,000,000	100 foreign-owned enterprise	Provision of logistics services
	LF Logistics (Taiwan) Limited	Hong Kong	Ordinary HK$200	100	Provision of logistics and packaging services

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
Note	**Principal subsidiaries**				
	LF Logistics (Thailand) Limited	Thailand	Ordinary Baht 307,750,000	100	Freight forwarding and other logistics services
	LF Logistics (UK) Limited	England	Ordinary GBP25,050,000	100	Provision of logistics services
(1)	LF Logistics (Vietnam) Company Limited	Vietnam	Charter capital US$300,000	100	Storage and Warehousing Services
	LF Logistics Development (M) Sdn. Bhd.	Malaysia	Ordinary RM2	100	Investment holding
(1)	LF Logistics Holding (Thailand) Limited	Thailand	Ordinary Baht 50,000,000	100	Investment holding
	LF Logistics Holdings (UK) Limited	England	Ordinary GBP2	100	Investment holding
(1)	LF Logistics Japan Limited	Japan	Ordinary JPY10,000,000	100	Provision of logistics services
(1)	LF Logistics Korea Limited	Korea	Common stock KRW 3,000,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics Management Limited	Hong Kong	Ordinary HK$426,509,031	100	Provision of management and consultancy services
(1)	LF Logistics Pakistan (Private) Limited	Pakistan	Ordinary Rs5,000,000	100	Provision of freight forwarding and other logistics services
	LF Logistics Services (M) Sdn. Bhd.	Malaysia	Ordinary RM2,000,000	100	Provision of logistics services
	LF Logistics Services Pte. Ltd.	Singapore	Ordinary S$28,296,962	100	Provision of freight forwarding, warehousing and distribution services, agency and supply chain management services
(1)	LF Logistics USA Inc.	U.S.A.	Common Stock US$1	100	Investment Holding
(1)	LF Logistics USA LLC	U.S.A.	Capital contribution US$1	100	Provision of freight forwarding and other logistics services
(1)	LF Men's Group LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
	LF Performance Services Sdn. Bhd.	Malaysia	Ordinary RM250,000	70	House Royal Custom's bonded warehouse licence
(1)	LF Sourcing (Millwork) LLC	U.S.A.	Capital contribution US$1	100	Sourcing and export trading
(1)	LF Sourcing Sportswear LLC	U.S.A.	Capital contribution US$1	100	Wholesaling
(1)	LFL Management (Thailand) Limited	Thailand	Ordinary Baht 10,000,000	100	Investment holding
(1)	LFL Services (Thailand) Limited	Thailand	Ordinary Baht 2,000,000	100	Investment holding
	Licus GmbH	Germany	EUR50,000	100	Importer

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
(1)	Li & Fung (Australia) Proprietary Limited	Australia	Ordinary AU$1	100	Marketing liaison
(1)	Li & Fung (Bangladesh) Limited	Bangladesh	Ordinary TK$9,500,000	100	Export trading services
(1)	Li & Fung (Brasil) Trading, Importacao E Exportacao Ltda	Brazil	Common shares R$333,559	100	Service provider
(1)	Li & Fung (Cambodia) Limited	Cambodia	Ordinary Riels 120,000,000	100	Export trading services
(1)	Li & Fung (Chile) Limitada	Chile	Chilean Pesos $5,500,000	100	Export trading
	Li & Fung (Europe) Holding Limited	England	Ordinary GBP100	100	Investment holding
	Li & Fung (Exports) Limited	Hong Kong	Ordinary HK$10,000 Non-voting deferred HK$8,600,000	100	Investment holding
(1)	Li & Fung (Guatemala) S.A.	Guatemala	Nominative shares Q5,000	100	Export trading services
(1)	Li & Fung (Honduras) Limited	Honduras	Nominative common shares Lps25,000	100	Export trading services
	Li & Fung (India) Private Limited	India	Equity shares Rs64,000,200	100	Export trading services
	Li & Fung (Korea) Limited	Korea	Common stock KRW 200,000,000	100	Export trading services
(1)	Li & Fung (Mauritius) Limited	Mauritius	"A" Shares Rs750,000 "B" Shares Rs500,000	60	Export trading services
(1)	Li & Fung (Morocco) SARL	Morocco	Ordinary Dirhams10,000	100	Export trading services
(1)	Li & Fung (Nicaragua), Sociedad Anonima	Nicaragua	Nominative shares C$50,000	100	Export trading
(1)	Li & Fung (Philippines) Inc.	The Philippines	Common shares Peso 1,000,000	100	Export trading services
(1)	Li & Fung (Portugal) Limited	England	Ordinary GBP100	100	Investment holding
(1)	Li & Fung (Singapore) Private Limited	Singapore	Ordinary S$25,000	100	Export trading services
	Li & Fung (Taiwan) Limited	Taiwan	NT$175,000,000	100	Sourcing and inspection
(1)	Li & Fung (Thailand) Limited	Thailand	Ordinary Baht 4,000,000	100	Export trading services
	Li & Fung (Trading) Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	Export trading services and investment holding
(1)	Li & Fung (Vietnam) Limited	Vietnam	Charter capital US$800,000	100	Export trading services
	Li & Fung Agencia de Compras em Portugal, Limitada	Portugal	EUR99,759.58	100	Export trading services
(1)	Li & Fung Mexico S.A. de C.V.	Mexico	Common nominative shares MXP150,000	100	Service and import trading
	Li & Fung Mumessillik Pazarlama Limited Sirketi	Turkey	TL45,356,100	100	Export trading services

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

Note		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 Pakistan (Private) Limited	Pakistan	Ordinary Rs10,000,000	100	Export trading services
	Li & Fung South Africa (Proprietary) Limited	South Africa	Ordinary Rand 100	100	Export trading services
	Li & Fung Taiwan Holdings Limited	Taiwan	NT$287,996,000	100	Investment holding
(1)	Li & Fung Trading (Italia) S.r.l.	Italy	EUR100,000	100	Export trading services
	Li & Fung Trading (Shanghai) Limited	The People's Republic of China	RMB50,000,000	100 foreign-owned enterprise	Export trading
	Li & Fung Trading Service (Shanghai) Company Limited	The People's Republic of China	US$6,000,000	100 foreign-owned enterprise	Export trading services
	Li & Fung Trading Service (Shenzhen) Limited	The People's Republic of China	RMB3,000,000	100 foreign-owned enterprise	Export trading services
(1)	Li & Fung Trading Services (Malaysia) Sdn. Bhd.	Malaysia	Ordinary RM 500,000	100	Sourcing services
	Lion Rock (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
	Lion Rock Far East (1972) Limited	Hong Kong	Ordinary HK$20	100	Investment holding
	Lion Rock International Trading & Co.	Hong Kong	Capital contribution HK$3,000,000	100	Provision of management services
	Lion Rock Services (Far East) & Co.	Hong Kong	Capital contribution HK$17,000,000	100	Merchandising agent
	Lion Rock Services (Switzerland) AG	Switzerland	CHF3,400,000	100	Export trading services
	Lloyd Textile Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Manufacturing and trading
(1)	Mercury (BVI) Holdings Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Meredith Associates Limited	Hong Kong	Ordinary US$1,327,932	100	Investment holding
(1)	Mighty Hurricane Holdings Inc.	U.S.A.	Common stock US$100	100	Wholesaling
	Miles Fashion Asia Pte. Ltd.	Singapore	Ordinary S$1	100	Export trading
(1)	Miles Fashion USA, Inc.	U.S.A.	Common stock US$1,000	100	Importer
	Miles GmbH	Germany	EUR11,000,000	100	Importer
(1)	Millwork Holdings Co., Inc.	U.S.A.	Common stock US$1	100	Investment holding

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Principal subsidiaries				
	Modium Konfeksiyon Sanayi ve Ticaret Anonim Sirketi	Turkey	A Shares TL2,249,975 B Shares TL25	100	Manufacturing
	Ningbo Zhicheng Customs Brokerage Co., Ltd.	The People's Republic of China	RMB1,500,000	100	Provision of Customs brokerage services
(1)	P.T. Lifung Indonesia	Indonesia	Ordinary US$500,000	100	Export trading services
	Paco Trading (International) Limited	Hong Kong	Ordinary HK$2	100	Export trading
(1)	PATCH Licensing LLC	U.S.A.	Capital contribution US$1	66.67	Export trading services
	Perfect Trading Inc.	Egypt	LE2,480,000	100	Export trading services
	Peter Black Footwear & Accessories Limited	England	Ordinary GBP202,000	100	Design, marketing and sourcing
	Peter Black Holdings Limited	England	Ordinary GBP0.25	100	Investment holding
	Peter Black International Limited	England	Ordinary GBP0.01	100	Investment holding
	Peter Black Overseas Holdings Limited	England	Ordinary GBP2	100	Investment holding
	Product Development Partners Limited	Hong Kong	Ordinary HK$2	100	Export trading
	PromOcean France SAS	France	EUR4,030,303	100	Wholesaling
	PromOcean GmbH	Germany	EUR25,570	100	Wholesaling
	PromOcean No 1 Limited	England	Ordinary GBP1	100	Investment holding
	PromOcean Spain SL	Spain	EUR3,005	100	Wholesaling
(1)	PromOcean The Netherlands B.V.	The Netherlands	EUR39,379.5	100	Wholesaling
	PromOcean UK Ltd	England	Ordinary GBP1	100	Wholesaling
(1)	PT. LF Services Indonesia	Indonesia	Ordinary Rp5,000,000,000	100	Logistics, transport and other services
(1)	Ratners Enterprises Ltd.	British Virgin Islands	Ordinary US$1	100	Investment holding
(1)	Region Giant Holdings Limited	British Virgin Islands	Ordinary US$31	100	Investment holding
(1)	RMS Trading GmbH	Germany	EUR25,000	100	General trading of merchandise
	Shanghai IDS Distribution Co., Ltd.	The People's Republic of China	US$3,100,000	100 foreign-owned enterprise	Storage and logistic transportation management

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

Note	Principal subsidiaries	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity held by the Company	Principal activities
	Shiu Fung Fireworks Company Limited	Hong Kong	Ordinary "A" HK$1,100,000 Ordinary "B" HK$1,100,000	100	Export trading
	Shiu Fung Fireworks Trading (Changsha) Limited	The People's Republic of China	RMB4,000,000	100 foreign-owned enterprise	Export trading
	Silvereed (Hong Kong) Limited	Hong Kong	Ordinary HK$1	100	Export trading
	Sky Million International Limited	Hong Kong	Ordinary HK$2	100	Property investment
(1)	Tantallon Enterprises Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
	Texnorte II – Industrias Texteis, Limitada	Portugal	EUR5,000	100	Export trading services
	Texnorte Industrial Limited	Hong Kong	Ordinary HK$2	100	Export trading
	Visage Group Limited	England	Ordinary GBP100,000	100	Investment holding
	Visage Holdings (2010) Limited	England	Ordinary GBP2	100	Investment holding
	Visage Limited	England	Ordinary GBP54,100	100	Design, marketing and sourcing
	W S Trading Limited	Hong Kong	Ordinary HK$1,000,000	100	Export trading

NOTE:

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

The above table lists out the principal subsidiaries of the Company as at 31 December 2019 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

Note		Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity indirectly held by the Company	Principal activities
Note	**Principal associated companies**				
#	Ningbo Penavico-CCL International Freight Forwarding Co., Ltd.	The People's Republic of China	US$1,000,000	40	Provision of freight forwarders services
#	FNX Technologies Canada Ltd.	Canada	Common stock US$1	45	Development of 3D-enabling technology
#	FNX Technologies, Ltd.	U.S.A.	Common stock US$45	45	Investment holding
Note	**Joint venture**				
*	Red Sun Company Limited	The People's Republic of China	RMB48,000,000	20	Domestic and export trading

The associated companies are not audited by PricewaterhouseCoopers.

* The joint venture is not audited by PricewaterhouseCoopers.

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

The above table lists out the principal associated companies and joint venture of the Company as at 31 December 2019 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.