The Directors submit their report together with the audited financial statements for the year ended 31 December 2019.

Principal Activities, Analysis of Operations and Business Review

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in Note 45 to the financial statements.

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

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, and an indication of likely future development in the Group business, can be found in the preceding sections of this Report set out in pages 2 to 121. The preceding sections form part of this Report.

The Directors recognize the importance of sound environmental, social and governance (“ESG”) practices to support the sustainable development of the Group’s business today and for the long term. The Board and its committees oversee the Group’s management of ESG performance and the implementation of its sustainability strategy. The Risk Management and Sustainability Committee (“RMSC”) is particularly focused on reviewing and advising on the Group’s ESG risk management and performance. Details regarding the roles, responsibilities and actions of the RMSC are provided on page 48 of this Report, and its terms of reference is available on our website.

The Group maintains appropriate systems to manage risk and to meet relevant legal requirements and standards related to corporate governance, business operations, employment, health and safety, the environment and the supply chain. With regard to the environment and as part of its sustainability strategy, the Group implements initiatives to manage its footprint and address climate change, monitor performance and adopt improvement actions. Details on policies adopted and performance achieved are outlined in “Our Footprint” on pages 112 to 121 and demonstrate the Group’s continued efforts to reduce the environmental impact of its operations.

Engaging stakeholders is an ongoing and important part of the Group achieving its business objectives. The Directors review the Group’s approach to engaging with its key stakeholders who include shareholders and investors, customers, suppliers and business partners, employees, governments, industry and non-governmental organizations and the media. Regular communication and engagement with these stakeholders enables the Group to manage risk and address evolving requirements and expectations. Examples of how the Group engages with its stakeholders are provided throughout this Report and specifically on pages 80 to 121.
Results and Appropriations
The results of the Group for the year are set out in the consolidated profit and loss account on pages 143 to 144.

The Directors declared an interim dividend of HK$0.01 (equivalent to US$0.001) per ordinary share, totalling US$11 million which was paid on 19 September 2019.

The Directors do not recommend the payment of final dividend due to the economic uncertainties as a result of the COVID-19 virus outbreak.

Distributable Reserves
At 31 December 2019, the reserves of the Company available for distribution as dividends amounted to US$2,790,944,000, comprising retained earnings of US$2,336,304,000 and contribution surplus of US$454,640,000 arising from: (i) the exchange of shares for the acquisition of Li & Fung (B.V.I.) Limited; (ii) the issuance of shares for the acquisition of Colby Group Holdings Limited; (iii) the transfer from share premium of US$3,000,000,000 offset by the distribution in specie of US$2,290,000,000; and (iv) the distribution of a special dividend of US$19,549,000 in 2018.

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

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realizable value of the Company’s assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Donations
Charitable and other donations made by the Group during the year amounted to US$128,000.

Ten-year Financial Summary
A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2019 and for the previous nine financial years are set out in the “Ten-Year Financial Summary” section on pages 244 to 245.

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

Purchase, Sale or Redemption of the Company’s Listed Securities
Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2019.
Long-term Incentive Schemes

(A) Share Option Schemes

2003 OPTION SCHEME

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

As at 31 December 2019, there were Share Options relating to 8,000,000 Shares granted by the Company representing 0.09% of the issued Shares as at the date of this Report pursuant to the 2003 Option Scheme which were valid and outstanding.

2014 OPTION SCHEME

The 2014 Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 15 May 2014. As at 31 December 2019, there were Share Options relating to 27,369,000 Shares granted by the Company representing 0.32% of the issued Shares as at the date of this Report pursuant to the 2014 Option Scheme which were valid and outstanding.

Details of the Share Options granted under the 2003 Option Scheme and the 2014 Option Scheme that remain outstanding as at 31 December 2019 are as follows:

<table>
<thead>
<tr>
<th>Grant Date</th>
<th>Exercise Price HK$</th>
<th>Grantees</th>
<th>Number of Share Options</th>
<th>Exercisable period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>As at 1/1/2019</td>
<td>As at 31/12/2019</td>
</tr>
<tr>
<td>2003 Option Scheme</td>
<td></td>
<td></td>
<td>Lapsed</td>
<td></td>
</tr>
<tr>
<td>22/12/2011</td>
<td>12.12</td>
<td>Spencer Theodore Fung</td>
<td>5,000,000</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marc Robert Compagnon</td>
<td>5,000,000</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>2014 Option Scheme</td>
<td></td>
<td></td>
<td>5,006,000</td>
<td>(2,503,000)</td>
</tr>
<tr>
<td>21/5/2015</td>
<td>7.49</td>
<td>William Fung Kwok Lun</td>
<td>3,046,000</td>
<td>(1,523,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Spencer Theodore Fung</td>
<td>2,630,000</td>
<td>(1,315,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marc Robert Compagnon</td>
<td>2,212,000</td>
<td>(1,106,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Joseph C. Phi</td>
<td>41,443,000</td>
<td>(21,854,000)</td>
</tr>
<tr>
<td>16/11/2015</td>
<td>5.81</td>
<td>Continuous Contract Employees</td>
<td>889,000</td>
<td>(285,000)</td>
</tr>
<tr>
<td>19/5/2016</td>
<td>4.27</td>
<td>Continuous Contract Employees</td>
<td>604,000</td>
<td>–</td>
</tr>
<tr>
<td>13/7/2017</td>
<td>2.86</td>
<td>Continuous Contract Employees</td>
<td>125,000</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>65,955,000</td>
<td>(30,586,000)</td>
</tr>
</tbody>
</table>
NOTES:

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

(2) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange’s daily quotation sheet on 20 May 2015 was HK$7.29.

(3) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange’s daily quotation sheet on 13 November 2015 was HK$5.58.

(4) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange’s daily quotation sheet on 18 May 2016 was HK$4.25.

(5) The closing market price per Share as at the date preceding the date on which the Share Options were granted and stated in the Stock Exchange’s daily quotation sheet on 12 July 2017 was HK$2.85.

(6) The above Share Options granted are recognized as expenses in the financial statements in accordance with the Company’s accounting policy as set out in Note 1 to the financial statements. Other details of Share Options granted by the Company are set out in Note 25 to the financial statements.

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

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

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

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

The number of Shares available for issue under the 2014 Option Scheme is 836,039,830 Shares, representing 9.79% of the issued Shares as at the date of this Report.

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

(iv) Limit for Each Participant
The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the Shares in issue.
(v) Option Period
The period within which the Shares must be taken up, an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

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

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

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

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

(viii) Remaining Life of the Share Option Schemes
The 2003 Option Scheme expired on 11 May 2013 and all outstanding Share Options granted under the 2003 Option Scheme and yet to be exercised shall remain valid.

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

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

During the year, a total of 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 and the Scheme Mandate.

As at 31 December 2019, the trustee of the Share Award Scheme held a total of 1,022,100 Shares which can be applied to satisfy awards to non-connected persons.
The movement in the Award Shares under the Share Award Scheme during the year are as follows:

<table>
<thead>
<tr>
<th>Grant Date</th>
<th>Grantees</th>
<th>As at 1/1/2019</th>
<th>Granted</th>
<th>Vested</th>
<th>Unvested/Forfeited</th>
<th>As at 31/12/2019</th>
<th>Vesting Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>21/5/2015</td>
<td>Spencer Theodore Fung</td>
<td>90,000</td>
<td>–</td>
<td>(90,000)</td>
<td>–</td>
<td>–</td>
<td>Vested on 31 December 2019</td>
</tr>
<tr>
<td></td>
<td>Marc Robert Compagnon</td>
<td>76,600</td>
<td>–</td>
<td>(76,600)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joseph C. Phi</td>
<td>64,600</td>
<td>–</td>
<td>(64,600)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Connected Persons other than Directors</td>
<td>600,300</td>
<td>–</td>
<td>(600,300)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>4,220,700</td>
<td>–</td>
<td>(3,621,900)</td>
<td>(598,800)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>16/11/2015</td>
<td>Non-connected Persons</td>
<td>165,200</td>
<td>–</td>
<td>(141,300)</td>
<td>(23,900)</td>
<td>–</td>
<td>Vested on 31 December 2019</td>
</tr>
<tr>
<td>19/5/2016</td>
<td>Connected Persons other than Directors</td>
<td>7,300</td>
<td>–</td>
<td>(7,300)</td>
<td>–</td>
<td>–</td>
<td>Vested on 31 December 2019</td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>266,400</td>
<td>–</td>
<td>(216,300)</td>
<td>(50,100)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>14/11/2016</td>
<td>Non-connected Persons</td>
<td>53,700</td>
<td>–</td>
<td>(48,100)</td>
<td>(5,600)</td>
<td>–</td>
<td>Vested on 31 December 2019</td>
</tr>
<tr>
<td>13/7/2017</td>
<td>William Fung Kwok Lun</td>
<td>762,000</td>
<td>–</td>
<td>(381,000)</td>
<td>–</td>
<td>381,000</td>
<td>To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020</td>
</tr>
<tr>
<td></td>
<td>Spencer Theodore Fung</td>
<td>762,000</td>
<td>–</td>
<td>(381,000)</td>
<td>–</td>
<td>381,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Marc Robert Compagnon</td>
<td>634,000</td>
<td>–</td>
<td>(317,000)</td>
<td>–</td>
<td>317,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joseph C. Phi</td>
<td>508,000</td>
<td>–</td>
<td>(254,000)</td>
<td>–</td>
<td>254,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Connected Persons other than Directors</td>
<td>2,984,000</td>
<td>–</td>
<td>(1,492,000)</td>
<td>1,492,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>32,862,800</td>
<td>–</td>
<td>(14,533,800)</td>
<td>(4,004,000)</td>
<td>14,325,000</td>
<td></td>
</tr>
<tr>
<td>23/3/2018</td>
<td>Spencer Theodore Fung</td>
<td>986,000</td>
<td>–</td>
<td>(493,000)</td>
<td>–</td>
<td>493,000</td>
<td>To be vested in two tranches with the vesting date on 31 December of each year from 2019 to 2020</td>
</tr>
<tr>
<td></td>
<td>Marc Robert Compagnon</td>
<td>986,000</td>
<td>–</td>
<td>(493,000)</td>
<td>–</td>
<td>493,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joseph C. Phi</td>
<td>986,000</td>
<td>–</td>
<td>(493,000)</td>
<td>–</td>
<td>493,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Connected Persons other than Directors</td>
<td>1,096,000</td>
<td>–</td>
<td>(548,000)</td>
<td>–</td>
<td>548,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>958,000</td>
<td>–</td>
<td>(455,000)</td>
<td>(60,000)</td>
<td>443,000</td>
<td></td>
</tr>
<tr>
<td>23/8/2018</td>
<td>William Fung Kwok Lun</td>
<td>1,181,000</td>
<td>–</td>
<td>(393,800)</td>
<td>–</td>
<td>787,200</td>
<td>To be vested in three tranches with the vesting date on 31 December of each year from 2019 to 2021</td>
</tr>
<tr>
<td></td>
<td>Spencer Theodore Fung</td>
<td>3,150,000</td>
<td>–</td>
<td>(1,050,000)</td>
<td>2,100,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Marc Robert Compagnon</td>
<td>2,953,000</td>
<td>–</td>
<td>(984,400)</td>
<td>–</td>
<td>1,968,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joseph C. Phi</td>
<td>2,756,000</td>
<td>–</td>
<td>(918,800)</td>
<td>–</td>
<td>1,837,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Connected Persons other than Directors</td>
<td>5,459,000</td>
<td>–</td>
<td>(1,820,000)</td>
<td>3,639,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>46,074,400</td>
<td>–</td>
<td>(13,331,200)</td>
<td>(6,568,000)</td>
<td>26,175,200</td>
<td></td>
</tr>
<tr>
<td>21/11/2019</td>
<td>Spencer Theodore Fung</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td>To be vested in four tranches with the vesting date on 31 December of each year from 2019 to 2022</td>
</tr>
<tr>
<td></td>
<td>Marc Robert Compagnon</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joseph C. Phi</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td>6,226,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Connected Persons other than Directors</td>
<td>–</td>
<td>4,033,000</td>
<td>–</td>
<td>4,033,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-connected Persons</td>
<td>–</td>
<td>47,518,000</td>
<td>(1,206,400)</td>
<td>(270,000)</td>
<td>46,041,600</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>110,643,000</td>
<td>70,229,000</td>
<td>(44,411,800)</td>
<td>(11,580,400)</td>
<td>124,879,800</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

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

(iv) Granting of Awards
The Board may, from time to time, grant awards to any eligible person who the Board considers to have contributed or will contribute to the Group.

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

(v) Maximum Number of Shares to be Awarded
The maximum number of Shares, whether they are new Shares to be allotted and issued by the Company, or Award Shares that are not vested and/or are forfeited and held by the independent trustee to be applied towards future awards, or existing shares to be purchased on the market by the independent trustee, underlying all grants made pursuant to the Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Share Award Scheme) shall not exceed 3% (i.e. 250,811,949 Shares) of the total number of issued Shares as at the Adoption Date. As at 31 December 2019, 12,922,349 Shares are available for grant of awards in the future under the Share Award Scheme, representing approximately 0.15% of the Shares in issue.

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

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

(vii) Termination
Subject to any early termination as may be determined by the Board, the Share Award Scheme will be valid and effective for 10 years commencing on the Adoption Date.
Subsidiaries
Details of the Company’s principal subsidiaries at 31 December 2019 are set out in Note 45 to the financial statements.

Associated Companies
Details of the Company’s principal associated companies at 31 December 2019 are set out in Note 45 to the financial statements.

Joint Venture
Details of the Company’s principal joint venture at 31 December 2019 are set out in Note 45 to the financial statements.

Major Customers and Suppliers
During 2019 and 2018, the Group, comprising the Continuing Operations and the Discontinued Operations, purchased less than 30% of its goods and services from its five largest suppliers. The percentage of sales attributable to the largest customer and the five largest customers for the Group were 17% (2018: 16%) and 38% (2018: 37%) respectively.

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

Save as disclosed above, during 2019, none of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company’s issued share capital) had a material interest in the Group’s five largest customers.

Continuing Connected Transactions
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% stake in LF Logistics, a wholly-owned subsidiary of the Company before the transaction. On the same day, LF Logistics entered into the following agreements with FH (1937). FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the following agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules, which were subject to reporting and announcement requirements but exempt from the Independent Shareholders’ approval requirement:

(a) Master Logistics Services Agreement: The Master Logistics Services agreement allows LF Logistics and its subsidiaries to provide logistics and freight forwarding services to FH (1937) and its associates for a term commencing on 8 August 2019 to 31 December 2021 with annual cap for 2019, 2020 and 2021 of US$19 million, US$20 million and US$21 million respectively. The services under the Master Logistics Services Agreement are part of the service provided under the master agreement in (f) except these services are provided by LF Logistics and its subsidiaries. In such respect, the Group recorded logistics and freight forwarding services income of US$3,628,000 for the period from 8 August 2019 to 31 December 2019, which did not exceed the annual cap for 2019 of US$19 million.

(b) Master Property Agreement: The Master Property Agreement allows LF Logistics and its subsidiaries to lease office premises from FH (1937) and its associates for a term commencing on 8 August 2019 to 31 December 2021 with annual cap of the total value of right-of-use assets relating to the leases entered with FH(1937) and its associates for each of years ended 31 December 2019, 2020 and 2021 of US$7.05 million. In such respect, the Group did not record the any right-of-use assets as a result of entering into new leases with FH(1937) and its associates for the period from 8 August 2019 to 31 December 2019, which did not exceed the annual cap for 2019 of US$7.05 million.
During the year, the Group also engaged in certain other continuing connected transactions, as set out below, which constituted continuing connected transactions of the Company under the Main Board Listing Rules, and were subject to reporting and announcement requirements but are exempt from the Independent Shareholders’ approval requirement:

(c) The Company entered into a distribution and sale of goods agreement with FH (1937) and its associates on 17 November 2017 for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. FH (1937) and its associates are connected persons of the Company and the transactions contemplated under the distribution and sale of goods agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded sales of US$14,961,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$80 million.

(d) The Company entered into a master lease agreement on 14 November 2016 for the properties leasing or sub-leasing and/or licensing arrangements by the Group from/to FH (1937) and its associates for a term of three years commencing on 1 January 2017 and ended on 31 December 2019. In such respect, the aggregate operating lease rental and license fee paid and received approximated US$23,303,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$70 million. On 21 November 2019, the Company entered into in a renewed master lease agreement for the properties leasing or sub-leasing and/or licensing arrangements for a term of three years commencing on 1 January 2020.

(e) On 14 November 2016, a subsidiary of the Company entered into a buying agency agreement with a subsidiary of Global Brands, an associate of FH (1937), for the sourcing and supply chain management services for a term commencing on 9 July 2017 and ending on 31 March 2020. 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 price of all products and components sourced, of approximately US$15,693,000. The commission payable to the Group under the buying agency agreement did not exceed the annual cap for 2019 of US$180 million and the cap on commission rate of 7% on the FOB price for all products and components sourced through the Group. The new buying agency agreement with term commencing on 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.

(f) On 17 November 2017, the Company entered into a master agreement with FH (1937) for provision of logistics related services to FH (1937) and its associates for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. The transactions contemplated under the master agreement constituted continuing connected transactions of the Company under the Main Board Listing Rules. In such respect, the Group recorded logistics related services income, including service income disclosed in (a) above, of US$9,415,000 for the year ended 31 December 2019 which did not exceed the annual cap for 2019 of US$50 million.

(g) On 3 April 2018, the Company entered into agreements with LH Pegasus Holding Limited ("LH Pegasus"), the holding company of the divested three Product Verticals, to deal with ongoing transactions after closing between the Group and the divested three Product Verticals. LH Pegasus and its subsidiaries are connected persons of the Company after its divestment from the Group on 3 April 2018 and the transactions contemplated under the following agreements constituted continuing connected transactions of the Company under the Main Board Listing Rules:

- **Services Agreement:** The services agreement allows LH Pegasus and its subsidiaries to continue to be supplied with certain back office functions related to IT, human resources, finance and accounting, corporate services and global transaction services for a term commencing on 3 April 2018 to 31 December 2019. In such respect, the Group recorded service fee received of US$24,929,000 for the year ended 31 December 2019, which did not exceed the annual cap for 2019 of US$45 million.
• **Master Property Agreement**: The master property agreement allows LH Pegasus and its subsidiaries and the Group to sub-lease and license office, showroom and warehouse premises to and from one another for a term commencing on 3 April 2018 to 31 December 2020. In such respect, the aggregate operating lease rental and license fee paid to and from one another approximated US$4,619,000 for the year ended 31 December 2019, which did not exceed the annual cap for 2019 of US$20 million.

• **Ancillary Sourcing, Logistics and Trading Services Agreement**: The ancillary sourcing, logistics and trading services agreement allows: (i) the Group to continue to provide sourcing services to LH Pegasus and its subsidiaries; (ii) the Group to provide logistics services to LH Pegasus and its subsidiaries; and (iii) LH Pegasus and its subsidiaries to provide trading services to the Group, for a term commencing on the closing of the strategic divestment and ending on 31 December 2020 respectively. For year ended 31 December 2019, aggregate amount of (i) ancillary sourcing commission, (ii) logistics service income excluding the pass-through costs for direct freight forwarding, received from, and (iii) trading services commission paid to LH Pegasus was US$19,350,000, which did not exceed the annual cap for 2019 of US$45 million.

Non-exempt continuing connected transactions of the Company for the year ended 31 December 2019 have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors confirmed that the aforesaid non-exempt continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Proper internal control procedures are in place to identify, approve and record all these transactions.

The Company’s auditor was engaged to report on the Group’s continuing connected transactions for the year ended 31 December 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with the Main Board Listing Rule 14A.56. A copy of the auditor’s letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

**Pension Scheme Arrangements**

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

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

In Korea, the Group and each of its employees are required to contribute 4.5% of the employee’s monthly salary to a government established pension corporation pursuant to the statutory requirement. Upon retirement, an employee is entitled to receive a lump sum payment.
In Indonesia and Thailand, the Group participates in a defined contribution provident scheme for its employees with the contribution set at 3.7% and 5% of the employees' basic salaries, respectively. In addition, the Group also participates in a defined benefit retirement scheme in accordance with local statutory requirements.

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

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

Contributions to the various arrangements of 2019 were:

<table>
<thead>
<tr>
<th>Description</th>
<th>US$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to the MPF Scheme</td>
<td>136</td>
</tr>
<tr>
<td>Contributions forfeited by employees</td>
<td>(55)</td>
</tr>
<tr>
<td>Contributions to the defined contribution provident scheme and defined benefits plan in Taiwan</td>
<td>2,037</td>
</tr>
<tr>
<td>Contributions pursuant to the statutory requirements in Korea</td>
<td>875</td>
</tr>
<tr>
<td>Contributions to the defined contribution provident scheme and defined benefits plan in Indonesia and Thailand</td>
<td>1,629</td>
</tr>
<tr>
<td>Contributions pursuant to statutory requirements in China</td>
<td>33,461</td>
</tr>
<tr>
<td>Contributions pursuant to local requirements in other overseas regions</td>
<td>10,286</td>
</tr>
<tr>
<td></td>
<td>48,369</td>
</tr>
</tbody>
</table>

**Directors**

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

**Non-executive Directors:**
- Victor Fung Kwok King (Honorary Chairman)
- Marc Robert Compagnon (re-designated to Non-executive Director on 28 January 2019)
- Allan Wong Chi Yun*
- Martin Tang Yue Nien*
- Margaret Leung Ko May Yee*
- Chih Tin Cheung*
- John G. Rice*

**Executive Directors:**
- William Fung Kwok Lun (Group Chairman)
- Spencer Theodore Fung (Group Chief Executive Officer)
- Joseph C. Phi

* Independent Non-executive Directors

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

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

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

The biographical details of the Directors as at the date of this Report are set out in “Our Board and Management Team” section on pages 62 to 71.
Permitted Indemnity Provision

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

Directors’ Service Contracts

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

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

Directors’ Material Interests in Transactions, Arrangements and Contracts

No transactions, arrangements and contracts of significance in relation to the Group’s business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year save as disclosed under the “Continuing Connected Transactions” section stated above and Note 37 “Related Party Transactions from Continuing Operations” to the financial statements.

Directors’ Interests

As at 31 December 2019, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

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

<table>
<thead>
<tr>
<th>Name of Directors</th>
<th>Personal Interest</th>
<th>Family Interest</th>
<th>Trust/Corporate Interest</th>
<th>Equity Derivatives (Share Options)</th>
<th>Total</th>
<th>Percentage of Issued Share Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victor Fung Kwok King</td>
<td>2,814,444</td>
<td>–</td>
<td>2,551,966,180</td>
<td>–</td>
<td>2,554,780,624</td>
<td>29.92%</td>
</tr>
<tr>
<td>William Fung Kwok Lun</td>
<td>178,276,060</td>
<td>108,800</td>
<td>2,426,530,672</td>
<td>2,503,000</td>
<td>2,607,418,532</td>
<td>30.54%</td>
</tr>
<tr>
<td>Spencer Theodore Fung</td>
<td>5,016,000</td>
<td>–</td>
<td>2,561,166,180</td>
<td>5,523,000</td>
<td>2,571,705,180</td>
<td>30.12%</td>
</tr>
<tr>
<td>Marc Robert Compagnon</td>
<td>4,196,400</td>
<td>14,000</td>
<td>21,294,380</td>
<td>5,315,000</td>
<td>30,819,780</td>
<td>0.36%</td>
</tr>
<tr>
<td>Joseph C. Phi</td>
<td>6,359,478</td>
<td>38,000</td>
<td>8,810,200</td>
<td>1,106,000</td>
<td>16,313,678</td>
<td>0.19%</td>
</tr>
<tr>
<td>Martin Tang Yue Nien</td>
<td>60,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>60,000</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
The following simplified chart illustrates the deemed interests of Victor Fung Kwok King and Spencer Theodore Fung under Note (1) below and the interest of William Fung Kwok Lun under Note (2) below:

**NOTES:**

As at 31 December 2019,

1. Victor Fung Kwok King and Spencer Theodore Fung (son of Victor Fung Kwok King and as his family member) were each deemed to have interests in 2,551,966,180 Shares held in the following manner:
   
   (a) 203,012,308 Shares were indirectly held by HSBC Trustee (C.I.) Limited through its wholly-owned subsidiary, First Island Developments Limited. HSBC Trustee is the trustee of a trust established for the benefit of the family members of Victor Fung Kwok King (the "Trust"); and

   (b) 2,195,727,908 Shares were directly held by Fung Holdings (1937) Limited, a wholly-owned subsidiary of King Lun Holdings Limited, and 153,225,964 Shares were indirectly held by FH (1937) through its wholly-owned subsidiary, Fung Distribution International Limited. King Lun is a company owned 50% by HSBC Trustee as trustee of the Trust and 50% by William Fung Kwok Lun.

2. 26,114,400 Shares and 50,294,200 Shares were held by Golden Step Limited and Step Dragon Enterprise Limited respectively, both companies are beneficially owned by William Fung Kwok Lun. 2,348,953,872 Shares were indirectly held by King Lun as mentioned in Note (1)(b) above. 1,168,200 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in “Share Award Scheme” section stated above.

3. Out of 2,561,166,180 Shares, 9,200,000 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in “Share Award Scheme” section stated above. The balance of 2,551,966,180 Shares represented the deemed interests of Spencer Theodore Fung as mentioned in Note (1) above.

4. Out of 21,294,380 Shares, 9,004,600 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in “Share Award Scheme” section stated above. The balance of 12,289,780 Shares were held by Profit Snow Holdings Limited, a company owned by a trust of which Marc Robert Compagnon is the settlor and a beneficiary.

5. 8,810,200 Shares represented the interests in Award Shares granted by the Company and remained unvested. Details on such Award Shares are set out in “Share Award Scheme” section stated above.

6. These interests represented the interests in underlying shares in respect of Share Options granted by the Company to these Directors as beneficial owners; the details of which are set out in the “Share Option Schemes” section stated above.

7. The approximate percentages were calculated based on 8,538,926,906 shares in issue as at 31 December 2019.
(B) Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2019, none of the Directors and chief executives of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(C) Share Options and Award Shares

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

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

Substantial Shareholders’ Interests

As at 31 December 2019, other than the interests of the Directors or chief executives of the Company as disclosed in the previous section, the following entities had interests in the Shares of the Company which are required to be disclosed to the Company under Section 336 of the SFO:

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Capacity</th>
<th>Number of Shares</th>
<th>Percentage of Issued Share Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Trustee (C.I.) Limited</td>
<td>Trustee</td>
<td>2,551,966,180</td>
<td>29.89%</td>
</tr>
<tr>
<td>King Lun Holdings Limited</td>
<td>Interest of controlled corporation</td>
<td>2,348,953,872²</td>
<td>27.51%</td>
</tr>
<tr>
<td>Silchester International Investors LLP</td>
<td>Investment manager</td>
<td>857,252,000</td>
<td>10.04%</td>
</tr>
</tbody>
</table>

NOTES:

As at 31 December 2019,

(1) Please refer to Note (1) under the “Directors’ Interests” section stated above.

(2) 2,195,727,908 Shares were directly held by FH (1937) which also through its wholly-owned subsidiary, Fung Distribution, indirectly held 153,225,964 Shares. FH (1937) is a wholly-owned subsidiary of King Lun. Both Victor Fung Kwok King and William Fung Kwok Lun are directors of King Lun, FH (1937) and Fung Distribution.

(3) The approximate percentages were calculated based on 8,538,926,906 shares in issue as at 31 December 2019.

Save as disclosed above, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying shares of the Company as at 31 December 2019.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Report, there is sufficient public float of more than 25% of the Company’s issued Shares as required under the Listing Rules.
Senior Management
The biographical details of the senior management as at the date of this Report are set out in “Our Board and Management Team” section on pages 62 to 71.

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

Corporate Governance
Principal corporate governance practices as adopted by the Company are set out in the “Our Commitment to Good Governance” section on pages 38 to 51.

Directors’ Responsibilities for the Financial Statements
The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group.

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

Proposal for the Privatisation of the Company by the Offeror and Proposed Withdrawal of Listing
Reference is made to the joint announcement issued by the Company and Goldon Lincoln Holdings I Limited (the “Offeror”) on 20 March 2020 (the “Announcement”). As disclosed in the Announcement, the Offeror requested the Board to put forward the proposal (the “Proposal”) to the Scheme Shareholders (as defined in the Announcement) regarding the proposed privatisation of the Company by way of a scheme of arrangement (the “Scheme”) under Section 99 of the Companies Act 1981 of Bermuda, involving the cancellation of the Scheme Shares (as defined in the Announcement) and, in consideration thereof, the payment to the Scheme Shareholders (other than the Founder Group (as defined in the Announcement)) of the cancellation price of HK$1.25 in cash for each relevant Scheme Share and the withdrawal of the listing of the Company’s Shares on the Stock Exchange, subject to the fulfillment or waiver (as applicable) of certain conditions. For further details and progress of the Proposal, please refer to the Announcement, the scheme document to be despatched which will contain, among others, the expected timetable for the Proposal, as well as any other announcements that may be published by the Company and/or the Offeror. Shareholders and potential investors should be aware that the Proposal is subject to certain conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

On behalf of the Board
William FUNG Kwok Lun
Group Chairman

Hong Kong, 20 March 2020